CHAPTER 1 Small Business: Varieties and Impacts Page 3 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 1-1 Understand the scope of small business in the United States. LO 1-2 Differentiate between small businesses and high-growth ventures. LO 1-3 Dispel key myths about small businesses. LO 1-4 Identify actions key to becoming a small business owner. LO 1-5 Recognize how small businesses are important to our economy and your community. LO 1-6 Recognize the seven key strategies of the entrepreneurial way. • Robin Rath of Pixel Press with kids drawing games to go into Pixel Press. How did he use his passion for video gaming to help him find his business idea? Pixel Press Focus on Small Business: Robin Rath, Pixel Press1 When Robin Rath was a kid, he was an avid player of video games like Metroid and Super Mario Brothers, and when he wasn't playing he was designing new levels of his favorite games in his head and on paper. But he realized that video gaming was part art and part programming, and that helped him set his course. Following an undergraduate degree from Saint Louis University (SLU) bridging communications technology with fine and studio arts, he was positioned to realize his dream. But game producers were thin on the ground in St. Louis, so Robin's strategy was to find jobs to hone his programming skills during the day and create his own firm, Roundthird, to develop games as his side gig on nights and weekends. His main work included stints at increasingly responsible and demanding positions at six different companies in the programming and marketing industries in St. Louis. Meanwhile, he and his Roundthird partner, Jon Gettys, released Radial 50 for IOS, a circular takeoff on the classic Breakout brick-breaking video game. Robin's day and side gigs helped him develop the in-depth knowledge of programming, project planning, marketing, and networking which convinced him that given the right idea, he would be ready to go full time as an entrepreneur. The idea that led to full-time entrepreneurship was Pixel Press, a piece of software for iPhones and iPads that would let regular people with no programming skills create playable games reminiscent of Super Mario on their Apple devices. While the idea was ambitious, it was possible, and as he got word out, Pixel Press got favorable press from NBC News, CNET, Fast Company, and others. Building on this, Robin created a Kickstarter campaign to crowdfund his dream. You can see the campaign and watch the original pitch at www.kickstarter.com/projects/robinrath/pixel-press-draw-your-own-video-game. The campaign was successful, topping $100,000. With that money and with what he had saved, Pixel Press made it to market. Within two years, Pixel Press announced a partnership with Cartoon Network (CN) resulting in the Adventure Time Game Wizard, which would let players create games with CN characters. From the success of that partnership, Pixel Press went on to release its next product that represented its first foray into toys and gaming, forming partnerships with Mattel and Disney to bring products to store shelves in the United States and internationally. Page 4 In speaking with Robin, he credits a constant presence of an entrepreneurial spirit around him from a young age and throughout his

education: “Both of my parents were entrepreneurs and encouraged me early on in things like ‘baseball card shops’ not just in our basement but online as well, when making a website was still very hard. At SLU, I spent all four years as an intern in the Entrepreneurial Studies department and helped coordinate one of the country’s first entrepreneurial awards hosted by SLU—the Global Student Entrepreneur Awards (GSEA). Seeing college students win $10,000 to help their business start was inspiring.” Robin adds, “This also has motivated me to stay active with the Entrepreneurship Club at SLU, including all the work they do over the summer with high school students. Ultimately we are learning every day, and staying engaged at all levels helps me stay fresh and grounded.”

DISCUSSION QUESTIONS

Do you think Robin was originally thinking about starting a business when he was working in programming and marketing positions in other people’s companies? What drove Robin to start a business of his own? How important were contacts and connections to the growth of Robin’s business? Do you think Robin would credit his step-by-step approach with the success of his business? What is your opinion?

Starting an Entrepreneurial Small Business: Four Key Ideas  1-1 Understand the scope of small business in the United States.  Robin’s story makes a simple point—you can start a small business, and there are ways to help you be a success at it. Consider the four key things that Robin did right:  Believe that you can do this: Robin’s belief in himself and what needed to be done to make Pixel Press’s app powered his efforts. That belief in yourself is called self-efficacy, and learning how to start a business in this class and from this book will help you build it for yourself.2 Those who believe in themselves and in the passion of their beliefs are more likely to keep at it until they succeed.  Planning + Action = Success: A plan without action is futile. Actions without plans are usually wasted. Success comes from having the right sort of plan to get you to the right actions as quickly as possible. Like Robin, those who plan and act are the ones who most often succeed.3  Help helps: Successful entrepreneurs learn—from other entrepreneurs, from experts in their chosen field, from potential customers, or even from their professors!4 Skill Module 1.1 will help you find some of the best sources of help on the web. Remember, those who get help succeed bigger and more often.  Do well. Do good: In the long run, you will depend on partners, investors, employees, customers, and neighbors. If you always remember, as Robin has, to do good for others as you try to do well in your business, you’ll feel better about your business and life, and those around you will too.5  Entrepreneurial Small

Business believes in the power of those four ideas, and we'll help you understand each of them and how to use them to make your entrepreneurial dreams come true. There are literally millions of those entrepreneurial dreams out there because there are so many ways to become an entrepreneur. Almost every year, while more than 400,000 new firms with employees are created, there can be 10 to 15 times that many new owner–only firms, so it is safe to say that there are 6 million new firms a year, and yours can be one of them.6 Page 5 SKILL MODULE 1.1 The Small Business Online Scavenger Hunt It can be mind-boggling to discover how much material is on the web ready to help aspiring entrepreneurs. To help you get a feel for what is out there, we have put together a web scavenger hunt focusing on key information. In a few cases you may have to register, but all registrations for websites listed here are free. Along the way you will get to peruse some of the "best of the best" entrepreneurship information on the web. If you wanted to find stories about business in Albuquerque (or run the name of a business from there to see what it has done), which site would give you the biggest selection of local stories? www.bizjournals.com, www.usatoday.com/money/business, www.wsj.com. Which of the following sites offers you a free online business plan maker? www.usa.gov/business, www.sba.gov, www.entrepreneur.com. Which site can connect you to free local help for starting and growing your business? www.nfib.com, www.sba.gov, www.inc.com. You can search for patents for free at www.google.com/patents or www.uspto.gov. Which will also let you search for trademarks? If you want to find out what the profit margins are for businesses in the restaurant industry, which site would give you the answer? www.sba.gov, www.entrepreneur.com, www.bizstats.com. By the time you have checked out these sites, you will be up to speed on some of the largest and most credible sets of free, high-quality small business information available today. The vast majority of new firms go through similar start-up processes. The firms most likely to be successful follow a four-step process, shown in Figure 1.1. FIGURE 1.1The Entrepreneurial Process Feel: This is where the entrepreneur has a feeling—about maybe starting a business or maybe creating a particular product or service. This is what starts the founding process. We'll talk about entrepreneurs and the feelings leading to their business in Chapter 2. Check: Smart entrepreneurs check the likelihood for success of their idea through feasibility analyses (see Chapter 4) or customer development processes (see Chapter 9), repeating these until they have a winning and saleable idea. Plan: Getting from the idea to the business can be done by small-scale, part-time start-ups (see Chapter 5), lean business practices approaches (see Chapter 9), pilot testing (see Chapter 4), business modeling, or business plan creation (see Chapter 8). Do: Regardless of the type of planning approach you choose to implement your business activity, you will find that you need to refine your approach until you have a successful firm, including additional rounds of refinement and revising.

Entrepreneurs Are Everywhere In addition to Robin Rath of Pixel Press, the United States had 15.5 million other full-time entrepreneurs working in 2015, according to the U.S. Census Bureau.7 If we include people pursuing their entrepreneurial dreams on a part-time basis, we need to add another 50 million people.8 What were they doing? Just about everything! Entrepreneurs could be found in almost every type of work there is, literally in hundreds of occupations. In fact, there are occupations composed mostly of entrepreneurs. Table 1.1 shows the 10 occupations with the largest numbers of entrepreneurs as well as the 10 occupations with the highest percentages of entrepreneurs. Note that "owner-managers" are an occupation in their own right, but can appear in any other industry. TABLE 1.1 The Top 10 Occupations for Entrepreneurs9Table Summary: Table divided into two columns summarizes list of jobs for entrepreneurs in terms of numbers and percentage. The column headers are marked from left to right as: top 10 occupations with the highest number of entrepreneurs and top 10 occupations with the highest percentage of entrepreneurs. Top 10 Occupations with the Highest Number of Entrepreneurs Top 10 Occupations with the Highest Percentage of Entrepreneurs Owner-managers 1,694,434 Farmers and Ranchers 86.4% Construction 1,043,176 Medical Practitioners 75.2 Farmers 1,019,727 Movie Projectionists 72.6 Retailers 683,623 Artists 70.2 Drivers 450,709 Entertainers and Athletes 66.8 Child Care Workers 402,267 Salespeople 56.9 Real Estate Agents 376,834 Landscape Managers 56.3 Wholesalers 373,099 Photographers 56.2 Maintenance Workers 342,689 Service Managers 53.6 Lawyers 310,390 Furniture Finishers 52.9 Source: U.S. Census Bureau, Current Population Survey, March 2015, custom computation using DataFerrett by Jerome Katz. Page 6 Notice that while there are entrepreneur-rich occupations that require college and even graduate school, there are also occupations popular with entrepreneurs with very basic entry requirements. What is most important here is finding something you want to do. When you decide on what your business is going to be, you are choosing your occupation. As the entrepreneur, you may be the owner of the business, but your occupation will depend on what type of goods or services you and your firm are producing. So the owner of an online store is a retailer, while the owner of a construction firm will be a construction manager. Robin Rath is an app maker because Pixel Press makes apps that he sells online. Whatever you want to do, there is probably a way to do it as an entrepreneur. ColorBlind Images/Blend Images LLC Hero Images/Getty Images Hero Images/Getty Images Andersen Ross/Blend Images LLC • Entrepreneurs can be found in nearly every line of work there is. Into what occupation would your business put you? Truly entrepreneurial businesses are characterized by novelty in their products, services, or business models. Small businesses, on the other hand, are imitative in nature, with most small firms doing what other firms do, with only slight variations. But when we think about the people who start firms, the situations they face are situations of novelty. So whether he or she starts the

successor to Amazon.com or the pizzeria on the corner, the person who starts a business is living the life of the entrepreneur. We recognize this distinction and address the challenges facing entrepreneurs, while focusing on the small businesses they plan to create or enter. In Entrepreneurial Small Business we use the popular broad definition of entrepreneur10—anyone who owns a business is an entrepreneur. This, of course, means anyone who is a small business owner is an entrepreneur.11 It also means that the self-employed, anyone who works for himself or herself instead of for others, is also an entrepreneur. As noted above, according to the Census Bureau, there were about 15.5 million full-time self-employed people in 2015. Including entrepreneurs who worked part time in 2015 added over another 50 million people to the number. Within the population of entrepreneurs, it is sometimes useful to split out certain groups. One of these is founders, the people who start a business, whether it is one of their own devising or a franchise, which is a prepackaged business you buy or lease from a franchisor. Other groups consist of buyers, those who purchase an existing business, or of heirs, those who inherit or are given a stake in the family business. These roles deal with the entry stage of the business from the perspective of the entrepreneur. After entry, another role emerges, that of the owner-manager, the role in which most entrepreneurs spend their working lives. Throughout this text the terms small business owner, entrepreneur, and self-employed are used interchangeably. When founders or buyers or post-entry owner-managers are discussed, we specify which one is the focus. Page 7 CSI: Entrepreneurship Notice that our definition of entrepreneur doesn't specify if the business is for-profit or nonprofit. The fact is that starting either type of organization involves the entrepreneurial process of founding. Self-employed founders of firms are involved in what we call independent entrepreneurship. Founders of nonprofit organizations or for-profit social ventures are pursuing social entrepreneurship. These efforts involve creating new charitable and civic organizations that are financially self-sufficient like Bangladesh's Grameen Bank (which won the 2006 Nobel Peace Prize for making banking services designed to help the poor manage their money better), or for-profit companies that use much of their profit to fund charities such as Tom's Shoes with its "One for One" philosophy where for every pair of shoes you buy it donates a pair to children in need. Many people also include the founders of charities. When the social entrepreneur's focus is more specifically on the planet and ecological issues, we call it sustainable entrepreneurship or green entrepreneurship. Page 8 Economists talk about yet another type of entrepreneur, innovative individuals who are employed by others in existing companies. Such people are pursuing corporate entrepreneurship and estimates put the number of corporate entrepreneurs at about 80 percent that of self-employed entrepreneurs, or nearly 12 million Americans. In corporate entrepreneurship, the focus is typically on bringing new products or services to market, or opening up new markets for your firm. Famous examples of corporate entrepreneurship include the

creation of new brands like Apple's iPhone or GM's green energy services. Companies rapidly expanding geographically, like Panera Bread or Planet Fitness, would also be a visible example depending on corporate entrepreneurs to open up new areas to their offerings. Together, corporate, social, and independent entrepreneurship represent what might be called CSI entrepreneurship or the three forms of entrepreneurship12 and people move among the three forms more often than you might think. Consider Jim McKelvey, cofounder of Square.13 You've probably paid for something with your credit card and had it swiped through a Square device. But Square was just another step along a winding, entrepreneurial path. After McKelvey graduated college (degrees in economics and computer science), he launched Mira, a software company. But Mira didn't make any money for its first five years, so McKelvey was forced to support himself by working as a glass artist. "Ironically, the only business I ever pursued primarily for the money was glassblowing." McKelvey recalls, "I became a glass artist simply to pay the bills. All the other organizations were created to solve a problem. I have always found problems to be the best motivators." After Mira began to succeed, McKelvey was able to stop working in the studio just for the money, but continued to practice glassblowing as an artistic hobby. But glassblowing studios are rare and Jim was frustrated at the lack of access to both the tools and techniques. He resigned as CEO of Mira and cofounded Third Degree Glass Factory so he and others would have a place to create glass art in St. Louis. Third Degree pioneered the model combining education, production, and entertainment. Page 9 In 2006 Third Degree achieved international recognition after housing the Glass Art Society's annual conference, but by this time McKelvey's focus was on the problems of running a business and not making art. In 2008, Jim reconnected with one of Mira's early employees, Jack Dorsey, who had recently left the company he created, Twitter. Jim and Jack decided to pursue Jim's idea of a fair payment system for small merchants, and called the new company Square. Square created a series of products focused on economic empowerment and by its 10th birthday was a public company valued at over $30 billion. Carl Juste/Miami Herald/TNS/Newscom Jim McKelvey Dawn Majors/St. Louis Post-Dispatch/MCT/Newscom • Jim McKelvey has demonstrated CSI entrepreneurship as a cofounder of Third Degree Glass Factory, a makerspace for artists. He was cofounder of Square, and the person who created the iconic Square credit card reader. After Square's IPO, he served as a corporate entrepreneur. He also started LaunchCode, a nonprofit that teaches coding for free and helps graduates get jobs. His role there was as a social entrepreneur. You can see a video of McKelvey discussing this at www.youtube.com/watch?v=wZFBvwm_CrY. With Square up and running, McKelvey again turned his attention to another serious problem: the perpetual shortage of programmers. His idea to combine guaranteed job placement with free education led him to found a nonprofit called LaunchCode. LaunchCode has trained and employed thousands of people

and is opening centers around the nation. As LaunchCode began to fulfill its mission, McKelvey again handed over the management to others and turned his focus to other social problems. He is now a director of the St. Louis Federal Reserve, where Jim shares his entrepreneurial skills with the people running our economy. He is also involved in several projects to help rebuild St. Louis as a vibrant, welcoming city. “I have never really had a career,” McKelvey says, “just a series of problems that I care about in different areas of my life. Sometimes the solution is a for-profit company, sometimes a nonprofit charity, and sometimes it’s government. But in each case the tools of entrepreneurship create new solutions.” Jim McKelvey’s story also shows the two kinds of motivation we often see driving most entrepreneurs. One type is based on entrepreneurs who are going into business to improve themselves financially or to launch an improved product or service into the market. This is called opportunity-driven entrepreneurship and is evident in Jim’s problem-solving efforts in starting Square and LaunchCode. The other type is where the person becomes an entrepreneur because he or she does not see any workable prospects for getting employed by someone else. This is called necessity-driven entrepreneurship. For Jim when graduating college, getting jobs as a glassblower was difficult, so his best way to pursue that dream was to co-create Third Degree Glass. LEARN MORE ONLINE Learn more about the topics above at these sites: Corporate entrepreneurship: Early To Rise, www.earlytorise.com/corporate-entrepreneurship/ Social entrepreneurship: Ashoka, www.ashoka.org/en-US Independent entrepreneurship: Entrepreneur magazine, www.entrepreneur.com/ Entrepreneurship Elsewhere As important as entrepreneurship is in the United States, it is more important elsewhere. While in any given year about 10 percent of the workforce in the United States is self-employed or contemplating starting their own business, the rates in other parts of the world can be 50 percent or even 100 percent higher than in the United States. There is a pattern (see Figure 1.2) to which countries are likely to have high rates of entrepreneurship, and which will have lower rates.14 In nations where there is little manufacturing, most industry relates to farming and extracting raw materials, such as mining and forestry. In these factor-driven economies such as Pakistan, Jamaica, and Venezuela, entrepreneurship is essential to helping build personal wealth and breaking the cycle of low-wage jobs, and entrepreneurship levels are very high. As economies develop and go beyond basic manufacturing to a more industrialized economy as is seen in countries such as Russia, Brazil, and China, it is called an efficiency-driven economy. In these nations, entrepreneurship becomes a key way to build the middle class, and a growing retail and wholesale sector grows alongside businesses serving the needs of large industrial concerns. Entrepreneurship levels in such economies are in the middle range. Page 10 Innovation-driven economies are focused on high-value-added manufacturing but are marked by a very large service sector providing high-end services to not only the resident population but also for export. Examples of such

countries include Germany, the Republic of Korea, and the United States. Entrepreneurship levels in these countries average the lowest of the three types of economies. FIGURE 1.2Early-Stage Entrepreneurial Activity for 15 Nations in 2015, by Phase of Economic Development Source: Custom tabulation of 2015–2016 GEM Global Report, Table 5, p. 130, by Jerome Katz and Richard Green. The lesson here is that entrepreneurship is happening around the globe in virtually all types of economies, and as global trade (both face-to-face and web-based) increases, the impact of global entrepreneurship will be increasingly faced by entrepreneurs and their firms everywhere. LEARN MORE ONLINE Learn more about the topics above at these sites: Global entrepreneurship: Global Entrepreneurship Monitor, www.gemconsortium.org/ Global entrepreneurship: Organization for Economic Cooperation and Development (OECD), www.oecd.org/sdd/business-stats/

The Many Types of Entrepreneurial Small Businesses 1-2 Differentiate between small businesses and high-growth ventures. You might be surprised to know that even with 15.5 million entrepreneurs out there, the number of firms is even greater—30.2 million in 2015!15 These firms are called many different things, such as small and medium enterprises (SMEs), independent small businesses, or owner-managed firms. However they are labeled, there are more firms than entrepreneurs because many entrepreneurs become serial entrepreneurs16 by starting additional businesses after their first one. As we will see a bit further into the chapter, this enormous population of small businesses is one of the major forces in the U.S. economy. But for now, just realize that you can pursue many dreams as an entrepreneur. No one is limiting you to just one. And after your first business, there is no telling how far you can go. Consider a nine-year-old Texan named Michael. Page 11 Michael started selling collectible stamps through the mail.17 He typed his catalog one key at a time since he had never learned to type, and he made $2,000. His next business was selling newspaper subscriptions by phone from home; he made $18,000 on this venture. His third business was reselling IBM PCs from his dorm room at the University of Texas at a time when IBM was trying to limit sales to official IBM dealers like Sears and IBM's own personal computer stores.18 It was Michael's fourth business, selling PCs, that we know today as Dell Inc. The nine-year-old was Michael Dell. • Michael Dell is well known now as the CEO of Dell Inc., a major industry leader in PC production. Before his success, though, Dell spearheaded at least three other much smaller businesses. What factors do you think led to Dell's decision to expand his earlier ventures and eventually to his successful capturing of the PC market? Peter Silva/ZUMAPRESS/Newscom Michael Dell's four businesses point up the difference between small businesses and high-growth ventures. Both may be small when they start. However, small businesses are usually

intended to remain small, generally a size that the owner feels comfortable controlling personally. For Michael Dell, his stamp, newspaper, and IBM PC resale businesses were designed to be small-scale operations that he could handle alone. He did everything himself, and he worked when he wanted to. The businesses were fairly conventional, with dozens or even hundreds of competitors all imitating one another. High-growth ventures start small but are intended to grow rapidly, often requiring a team of partners or managers to handle the growth. When Dell got serious about the upgraded PC business, he created a company and started hiring others to help out. He moved from his dorm room to a commercial location, kept open regular hours, and started thinking about putting together a much bigger operation. That much bigger operation is the Dell Inc. known worldwide today. While the computer business as a whole was established, Dell's approach to assembly from highly standardized (and therefore low-cost) parts was fairly revolutionary, as was his use of mail-order and later telephone and web-based ordering. In his fourth business, Dell led the industry because of his innovativeness, and others imitated him. The differences between small businesses and high-growth ventures aren't just semantic, they're fundamental, as shown in Table 1.2. TABLE 1.2 Differences between Small Businesses and High-Growth VenturesTable Summary: Table divided into three columns summarizes factors for creating growth strategy for various business ventures. Column 1 notes the differentiating factors. Columns 2 to 3 are marked from left to right as: small businesses and high-growth ventures. Small Businesses High-Growth Ventures Preferred funding source Owner's own money Other people's money When the firm's in trouble Cut costs Sell more What's more important Sales Marketing Personal control preference Retain autonomy Involve key others Focus Efficiency Effectiveness Meta-strategy Imitation Novelty External control preference Control firm Control market Grow When necessary When possible Human resources Personalize Professionalize Acceptance Personal validation External legitimacy What limits growth Loss of control Market response Delegation orientation Delegation is difficult Delegation is essential Entrepreneurs and Firm Growth Strategies Page 12 When creating his stamp business as a child and Dell Inc. as a young adult, Michael Dell had different goals and ambitions for each of these firms. As you can imagine, that kind of broad approach, called the overall growth strategy, represents another driver of the variety of entrepreneurship. The overall growth strategy describes the kind of business the owner or owners would like to have, from the perspective of how fast and to what level they would like the firm to grow. There are four generic growth strategies that account for nearly all businesses: Lifestyle or part-time firms: These typically have sales of $25,000 a year or less, which provide enough profit or salary to supplement an income but usually not enough on which to live. These businesses start and stay very small, often operating seasonally or when the owner wants to work in the business. Growth in these firms tends to quickly level off after the owners operate long enough to learn the

basics of making money in their industry and setting. About 53 percent of all small businesses fall into this category including Michael Dell's first three businesses. (See Figure 1.3.) Traditional small businesses: These are the smallest full-time businesses, with schedules defined by customer, not owner, needs. Most often, these are one-site businesses with sales of between $25,000 and $100,000. Growth levels off after operations settle into a consistent, money-making pattern, generating enough income to provide a living for the owner and family. Around 22 percent of small businesses fall into this category. High-performing small businesses: These tend to level off after success defined by sales of between $100,000 and $1,000,000, depending on the industry. These firms grow at rates more like 5 to 15 percent a year, adding employees, and often growing through multiple locations and higher levels of professionalization in order to maximize their profitability over a long term while reaching a plateau that lets them remain manageably small. About 20 percent of businesses fall into this category, including Robin Rath's business. High-growth ventures: These aim to achieve growth rates of 25 percent or more a year, with sales of more than $1 million. The firms aim to become big businesses and pursue high levels of professionalization and external funding. Such firms represent about 5 percent of all businesses. At the tip of this group are firms called unicorns, like Uber and Airbnb, that have valuations of $1 billion or more. In January 2016, there were 174 unicorns in the United States.19 Page 13 FIGURE 1.3Types of Firms Entrepreneurial Small Business focuses on the 95 percent of businesses outside the high-growth sector. These are what are often called main street businesses and include the lifestyle firms, the traditional small businesses, and the high-performing small businesses that represent the businesses most of us start and most of us deal with on a day-to-day basis. LEARN MORE ONLINE Learn more about the topics above at these sites: Start-up businesses: Kauffman Indicators of Entrepreneurship, https://indicators.kauffman.org/ Main street businesses: Kauffman Index of Main Street Entrepreneurship, www.kauffman.org/historical-kauffman-index/reports (ended with 2017 data) Data on small businesses: SBA's statistics page, www.sba.gov/advocacy/firm-size-databn

Myths about Small Businesses 1-3 Dispel key myths about small businesses. Here is a sobering truth: Although 56 percent of U.S. youth 15–25 years old polled in 2010 expressed an interest in becoming entrepreneurs, only 14.7 percent were actually doing anything to get a business started by 2018.20 The challenges of small business scare off or derail people. For years potential entrepreneurs have mentioned problems like these: There's not enough financing. To make profits, you need to make something. If you fail, you can never try again. Students don't have the skills to start a business. Ninety percent of all new businesses fail within two years. Over the past 10 years small business experts in

academia and government have studied small business and potential entrepreneurs and learned that a lot of the challenges scaring people away from small business are the stuff of urban legends. Let's look at these five problems with the latest information. Page 14 There's not enough financing: The SBA reported that in its last survey of business owners almost 40 percent of solo entrepreneurs started their businesses with less than $5,000.21 The SBA also reports that bank financing has been rising for 10 years, and the same is true for funding from family, friends, and angels.22 New sources of financing like crowdfunding sites Kickstarter.com (which Robin Rath used in the vignette at the start of the chapter) and Indiegogo.com or P2P lending sites like Lendingclub.com or Upstart.com are providing alternatives to traditional banks.23 Today you can create websites, blogs, and drop-shipping businesses for free using platforms like Wix, Weebly, or Ucraft24 while bootstrapping25 techniques like making your local coffee shop into your virtual office are increasingly popular as ways to get started without a lot of cash. To make profits, you need to make something: From the recession in 2011 to 2015, Sageworks reported that of the 10 most profitable industries for small businesses, 9 were services like dentists, tax preparers, mining support services, credit counselors, insurance brokers, and legal and health practitioners. Whereas getting a DDS or MD degree takes years and tens of thousands of dollars, bookkeeping and credit counseling require little specialized training.26 If you fail, you can never try again: If you close a business and pay off your debts, you did not fail. If you learned how to do better next time, then you can honestly say you have paid (in dollars and hours) for another piece of your education. A large number of today's successful entrepreneurs had failures along the way. Today vegetarians who frequent restaurants are thankful for Paul Wenner's Gardenburgers, but few realize that Paul learned the food business by owning a restaurant that eventually went out of business. Other famous failures include Ray Kroc (famous for McDonald's, failed at real estate), Henry Ford (two failed auto companies before making Ford), and the founders of California Pizza Kitchens, Rick Rosenfield and Larry Flax, who previously failed at screenwriting, a regular Italian restaurant, and a mobile skateboard park.27 Students (or moms or some other group) don't have the skills to start a business:28 It would be hard for an undergraduate to open a medical practice (watch Doogie Howser, MD, on Hulu.com if you want to see what this might have been like), but lots of students have useful business skills. If you are a student, you probably have a good idea what other students want to buy or have. That is the start of a retail business with a student market. If you have negotiating skills, the sky is the limit in retail and wholesaling, especially for products you already understand (T-shirts, energy drinks, backpacks, textbooks, etc.). In fact, you may have high-level but undocumented skills in developing websites or programming (like the founders of Facebook or Yahoo!). Competitions like the Global Student Entrepreneur Awards (www.gsea.org) or other award programs (Google "young entrepreneur competition" to find them) showcase dozens of

highly successful students who started and grew their businesses. Any mompreneur has managed a household, negotiated for family purchases, and solved thousands of problems ranging from broken equipment to angry family members. It was more than enough to get Mary Kay's Mary Kay Ash, Body Shop's Anita Roddick, or Baby Einstein's Julie Aigner Clark started in small businesses that grew to be big ones. The same is true for any group—second career entrepreneurs include Josie Natori (investment banking to Natori lingerie), Jim Koch (consulting to brewing Samuel Adams beer), or George Foreman (boxer to entrepreneur). • George Foreman: boxer to entrepreneur. Cathrin Mueller/Bongarts/Getty Images Ninety percent of all new businesses fail within two years: This statement is wrong in two major ways. First, the percentage is wrong. Studies show that 69 percent of businesses are still going after 2 years, 51 percent are still going at 5 years, 34 percent make it past 10 years, and 25 percent survive 15 years. Second, looking at the businesses that close, the vast majority close but don't fail. Only one firm in three that closes was considered financially unsuccessful by its owner. 29 Myths like these hold back many potential entrepreneurs. Knowing the truth is a powerful way to keep up your motivation for the undeniably tough work of starting your own business. When you encounter doomsayers, check out the facts at reputable sites like the U.S. Small Business Administration (SBA) at www.sba.gov (especially its FAQs) or in entrepreneur-focused magazines like Inc., Fast Company, or Entrepreneur. There you will find the facts you need, and the support and advice that underlies the idea that help helps. Page 15 LEARN MORE ONLINE Learn more about the topics above at these sites: SBA's small business FAQs: www.sba.gov/advocacy/frequently-asked-questions-about-small-business SBA's small business finance FAQs: www.sba.gov/sites/default/files/Finance-FAQ-2016_WEB.pdf Google search for reviews of free website companies: www.google.com/search?q=free+websites+builder&oq=free+websites+builder

Getting Started Now: Entry Competencies 1-4 Identify actions key to becoming a small business owner. There are a million things you could do to start a business, but which ones are best? Sometimes the answer will come to you in the form of an opportunity or offer, and sometimes you'll need to take the first steps yourself. In order to start a business, you need four elements to come together—boundary, resources, intention, and exchange.30 This is referred to as the BRIE model, as shown in Figure 1.4. FIGURE 1.4Four Elements Needed to Get Your Business Started (BRIE) A business needs the benefits of a boundary—something that sets it up as a firm, and sets it off from the buying or selling or bartering we all do occasionally. A boundary can be something as simple as a business name or government registration, a phone or email address dedicated to the business, or a specific location for the firm in a home, commercial space, or even on the Internet. Having a

boundary gives you a place to locate and protect the resources you've gathered for the business. Resources include the product or service to be offered, informational resources on markets and running a business, financial resources, and human resources such as your own time to devote to the business or that of others working with you or for you. Intention is the desire to start a business and is the most frequently occurring element of the BRIE model. Those 56 percent of young Americans who think about starting their own business are expressing their intentions. Exchange is also needed. This refers to moving resources, goods, or service to others in exchange for money or other resources. If the firm doesn't exchange with its environment, there is no "business" taking place. The BRIE model factors outline the activities that need to take place to get a firm going. Skill Module 1.2 is a self-assessment that can help you recognize what important steps you have taken to start your business, and what remains to be done. The BRIE model can help you deal with one of the biggest hurdles to starting a business. According to the experts, the biggest problem is simply inaction, as mentioned earlier. Stanford management professors Jeff Pfeffer and Bob Sutton31 say that even when people know taking action would be in their own best interests, most people tend to procrastinate, sticking with inaction or doing familiar things that have not worked. Pfeffer and Sutton recommend taking small steps toward a goal as an easy way to start. The BRIE checklist gives you the kind of small steps that can make all the difference. Consider coming back to this checklist periodically to help assess your preparations for business and determine what you still need to do. Taking lots of small steps is a sure way to achieve your goals. Page 16 SKILL MODULE 1.2 BRIE Self-Assessment The BRIE (boundary-resources-intention-exchange) model is a proven32 and handy way to think about the activities necessary to get a business started. It also is a model that will come up again in later chapters of this book. How many of the items have you done so far to get your business started the right way? The complete list of BRIE activities is given in the following table. Look at the BRIE list and check off actions you've taken already. Next to each item in parentheses are references that tell you in which chapter that topic is covered, in case you want to skip ahead to see how we suggest you do it. This exercise can help you think through which chapters are most important to you in preparing your business. The list can also be scored as a checklist. Go through the list and check off which items you have already done in starting a business. Then write in the first column how many items of each BRIE category you've done so far. Once you are finished, you can see how to score the BRIE checklist at the end of the skill module. BRIE Checklist Boundary—creating a place for your business in space and in people's minds Number of boundary actions done Opening a bank account for the business (Ch. 13) Registering the business name with the state (Ch. 17) Creating business cards and/or stationery (Ch. 10) Purchasing a domain name (Ch. 10) Creating a business website (Ch. 10) Obtaining a business telephone line (Ch. 1) Identifying a place for the business at home or elsewhere

(Ch. 11) Resources—the things that make up the business, like money, products, knowledge, etc. Number of resource actions done Organizing a start-up team (Ch. 18) Obtaining copyright, patents, trademarks (Ch. 17) Purchasing raw materials, inventory, supplies (Ch. 15) Acquiring major items (equipment, facilities, property) (Ch. 15) Hiring employees and managers (who do not share ownership) (Ch. 18) Participating in classes or workshops on starting a business (If you are taking a small business course, you can check this item.) Participating in programs that help new businesses get established like SIFE, CEO, or SBIDA Intention—demonstrating a determination to get the business going and for it to be successful Number of intention actions taken Thinking about the business (Ch. 4, 5, & 6) Undertaking marketing and promotional efforts (Ch. 7 & 10) Developing your product or service (Ch. 4 & 9) Beginning your full-time commitment to the business (> 35 hrs/wk) Preparing a business plan (Ch. 8) Defining market opportunities (Ch. 4) Developing projected financial statements (Ch. 7, 12, & 13) Exchange—making investments in and sales from the business Number of exchange actions done Generating sales revenue (Ch. 10) Arranging child care to work on business Establishing credit with a supplier (Ch. 14) Saving money to invest in the business (Ch. 12 & 14) Investing money in the business (Ch. 14) Seeking funds from financial institutions or others (Ch. 14) Seeking funds from spouse or household partner (Ch. 14) Seeking funds from current employer (Ch. 14) The scoring is straightforward. At a minimum you need to have taken at least one action in each of the BRIE categories33 to successfully start and grow a business. Business survival rates increase with the number of items checked across the different categories.34 So people who can check three or four items in each BRIE category are more likely to have surviving and growing firms than those who check only one item per category. Having a BRIE category with nothing checked indicates that it is likely that something major is being overlooked, so the business is likely to fail. It is also important to balance BRIE activities. For example, having lots of boundary activities done and only a few exchange ones is likely to lead to an unbalanced approach to business and a lesser chance of survival.

Small Business and the Economy 1-5 Recognize how small businesses are important to our economy and your community. Small business is vitally important to your community and even to our economy. Part of this comes from the new things small businesses contribute to the economy, particularly new jobs and innovations, as well as the basics that small businesses provide for all of us—jobs, taxes, and products or services. New Jobs Since the 1970s big business has cut tens of millions of jobs. In the meantime, small business has added tens of millions of jobs. In the latest statistics, small businesses created 65.9 percent of the new jobs created since 2000.35 When the Census Bureau looked more closely at the figures, it concluded that small business start-ups in the first

two years of operation accounted for virtually all the net new jobs in America.36 Small business is the engine of job generation, but it is important for existing jobs, too. Small businesses employ more than half of all Americans, providing wages, salaries, and the taxes those working people pay the government.37 One reason small businesses are a key employer is because they are more willing than most large businesses to offer jobs to people with atypical work histories or needs, like people new to the workforce, people with uneven employment histories, and people looking for part-time work. These employment issues are at the core of what makes small business attractive to local and state governments. New Ideas Small business is a key element of every nation's economy because it offers a very special environment in which the new can come into being. Austrian economist Joseph Schumpeter labeled this process creative destruction.38 It refers to the way that newly created goods, services, or firms can hurt existing goods, services, or firms. For example, when a new restaurant opens in your neighborhood, people flock to it to find out what it's like. This helps the new restaurant, but it also causes the other restaurants in the area to lose business, at least temporarily. One of the most famous examples of creative destruction is the personal computer, which started as a hobby that big business spurned. Page 18 Snapchat founders Evan Spiegel, Bobby Murphy, and Reggie Brown came up with one of the first apps that revolutionized how users interacted with their smartphones. Snapchat was designed to be used primarily on smartphones, and made better and more extensive use of smartphone features than anything ever before. While social media websites like Facebook already existed, Snapchat got more users to post, share, and look at more items on mobile screens than anyone ever had before. Instead of making posts permanent, they made posts vanish after being seen. Their innovative uses of smartphone technology (like drawing on top of photos or using gestures for nearly everything) changed how apps were designed, and increased user interaction with their mobile phones beyond what anyone had predicted. Snapchat's innovations redrew the lines of the entire smartphone app industry, and it also created tremendous new wealth, utility, and innovation. Big business often has trouble with innovations that would eat away at existing business, but small, new businesses are more likely to see new revenues in innovations. • Snapchat cofounders Evan Spiegel and Bobby Murphy developed Snapchat's forerunner, Piccolo, while students at Stanford. They refined it and renamed it Snapchat, where it became the favorite social media platform of high schoolers and the industry leader for how to design mobile apps to be maximally involving. What kinds of innovations have you seen that make people say "I just gotta have it!"? J. Emilio Flores/Corbis/Getty Images Why do so many innovations come from small business? Small business owners are freer of the judgments and social constraints of workers elsewhere.39 To give you an idea how much more powerful innovation is in small business, the U.S. Small Business Administration reports that among firms that hold one or more

patents, small businesses generate 16 times the number of patents per employee than do big businesses. And the patents produced in those small businesses are twice as likely to be among the top 1 percent of all patents cited by others.40 That citation is a measure of the importance of the invention. In the end, the freedom small business gives owners to pursue and perfect their dream creates the innovations from which we all benefit—not just major inventions like the personal computer, but whole classes of products such as snowboards (21-year-old Dimitrije Milovich in 1969),41 earmuffs (15-year-old Chester Greenwood in 1858),42 computer-controlled telephone systems (Krisztina Holly in 1992),43 date rape drug testing coasters (Brian Glover, 35, and Francisco Guerra, 34, in 2002),44 and Kitty Litter (Ed Lowe, 27, in 1947)45 that were developed by innovative small business owners. Think of the innovative contributions of small businesses in general and student-started small businesses in particular. Each group has made a tremendous difference in our industries, our economies, and our lives. Table 1.3 shows examples from both groups in eight different situations. TABLE 1.3 Major Inventions from Small Businesses and Student-Started Businesses46Table Summary: Table divided into three columns summarizes inventions done in various sectors. The column headers are marked from left to right as: where innovation is used; innovations from small businesses; and innovations from student-started small businesses. Where Innovation Is Used Innovations from Small Businesses Innovations from Student-Started Small Businesses Medicine Heart valves (Demetre Nicoloff) Video laryngoscope (Aircraft Medical) Business Processes Assembly lines (Olds) JIT PC assembly (Dell) Computing Hardware Supercomputers (Cray) Home computers (Apple) Computing Software Relational databases (Oracle) Social networking (Facebook) Everyday Technology Photocopiers (Chester Carlson) Google Leisure Outboard engines (Cameron Waterman) Snowboards (Dimitrije Milovich) Fashion GORE-TEX (W. L. Gore) Extreme custom nail polish (Dineh Mohajer) Drinks Snapple (Arnold Greenberg) Kombucha (GT Dave) Sources: The State of Small Business: A Report of the President, 1994 (Washington, DC: U.S. Government Printing Office, 1995); Meinie Reid, “How a Shop Assistant Saw the Light and Saved Lives,” The Times, July 17, 2008. New Opportunities People who own their own business are presented with tremendous opportunities—not only to improve their life and wealth, but also to help them move into and upward in the economy and society of the United States. The opportunities small business offers for getting into the economic mainstream of American life makes it attractive to people who foresee problems fitting into existing businesses—not only people with innovative ideas, but immigrants; people facing unusual schedules, demands, or limitations on their lives; and even people who need a second chance.47 For many such people, small business is the best business opportunity. Page 19 Small businesses offer communities another type of opportunity—the opportunity to enjoy goods and services. Imagine a neighborhood or town without a grocery store or a pharmacy. In important ways,

the town would not seem like a real community. A small grocery store, drugstore, hardware store, or gas station might be able to use its low overhead and capacity to adapt to local needs (e.g., a grocery store stocking a lot of fishing supplies to appeal to visiting fishing enthusiasts) to make a profit where larger chain stores could not.48 For a small town or a neighborhood to be able to stand on its own, it needs a variety of businesses.49 Small businesses provide unexpected opportunities to large businesses and entrepreneurial high-growth firms. High-growth ventures and big businesses are like a giant boat, and where the boat sails, the economy sails along too. But for the boat to work, it has to be supported by deep water. The ocean supporting the boat consists of the tens of millions of small businesses. Without small businesses offering supporting services or offering to subcontract at low cost to the high-growth ventures and big businesses or creating the kinds of communities where creative and entrepreneurial people like to live,50 those economic boats would lose their buoyancy or profitability and sink like stones. For example, industry giant Procter & Gamble outsourced the making of Ivory and other bar soaps to a small Canadian company, Trillium Health Care Products,51 saving millions of dollars a year. In addition, big business depends on small business as a source of key ideas for new products. You might think this means high-tech inventions, but there is a lot of money to be made from everyday inventions. Consider the recent drink sensation Kombucha in the following Small Business Insight. SMALL BUSINESS INSIGHT Success: GT Dave and Kombucha53 GT Dave's mom Laraine was battling breast cancer, and to help his mom at this awful time GT would make her kombucha tea (imagine a slightly bubbly bittersweet dark herbal tea) from the family's recipe. They learned about it through their lifelong involvement in Eastern philosophies. Laraine beat the cancer, and GT decided to offer the tea commercially. At 15 he started mixing larger quantities of his tea, offering it in bottles and selling it locally in health food stores in his hometown of Los Angeles. He slowly grew the business to other health food stores in his area using nothing but his own money, profits from the business, and a $10,000 loan from his mother. While he tried to stay in high school, it was a tough go, and he left but kept working to get his GED and take community college classes. • Founder GT Dave proudly showing off his Synergy kombucha drink. Ringo Chiu/ZUMA Wire/Alamy Live News/Alamy Stock Photo Four years after he started the business, he got his two drink lines (Kombucha and a kombucha and fruit drink line called Synergy) into Whole Foods Stores across California. This watershed would move Kombucha to national distribution and the company took off from there. Today kombucha is a $600 million industry in the United States, with industry growth rates of nearly 20 percent a year. It is such an attractive market that Pepsi and Coke have bought some of GT's competitors to enter the space with products called KeVita and MOJO, respectively. Amid all this competition GT's company, GT's Living Foods, remains a family-owned business. It is widely seen as the most innovative company in the industry, with over 30

types of kombucha offerings, kefirs (a probiotic milk drink), yogurts and adaptogenic teas, and the industry sales leader, with more than half of the market. You can hear GT tell his story at www.youtube.com/watch?v=VoG4RBmOLiI. New Markets One particular type of entrepreneurial opportunity comes from pursuing opportunities in other countries. Buying products or services outside your home country and selling them at home is called importing. Taking products and services made in your home country and selling them in other countries is called exporting. Originally, small business was synonymous with local business. The vast majority of firms sold in their home communities, and it was a very rare firm that sold nationally. Through the beginning of the twentieth century, it was rare for small businesses to sell in any other country. That is no longer true today. Small businesses account for 33.2 percent of the value of all goods and services exported from the United States, and represent 97.7 percent of all exporting firms. According to the U.S. government there were 280,229 small business exporters in 2016, and the average amount each firm exported was $1,530,891.52 Generally most of these firms export on the basis of personal ties. An entrepreneur trades with the country of his birth, his parents' birth, or where he has prior experience. The key for such exporters is the personal ties that make exporting predictable and safe.54 Page 20 Another approach that has grown dramatically in the past 15 years is using e-commerce, particularly sites like eBay and Amazon, to handle global trade. The formal title for this is virtual instant global entrepreneurship (VIGE).55 VIGE depends on using websites like Amazon or eBay (for products) or Upwork (for services) to quickly establish a global presence. Many of these VIGE sites offer procedures, services, and web page templates that incorporate best practices for global trading. For example, eBay leads new sellers through the creation of seller and product descriptions found to be the most effective. Amazon, eBay, and Upwork also organize the sellers' accounts to handle international payments, shipping, insurance, and basic customer service issues. VIGE sites provide the assurance of honesty on the part of buyers and sellers, using rules, warrantees, and most of all, mutual ratings of buyers and sellers. Page 21 LEARN MORE ONLINE Learn more about the topics above at these sites: Importing and exporting: SBA's exporting page, www.sba.gov/business-guide/grow-your-business/export-products Importing and exporting: The U.S. government's exporting page, www.export.gov/ Challenge and the Entrepreneurial Way 1-6 Recognize the seven key strategies of the entrepreneurial way. Entrepreneurs' stories usually tell us about challenges faced and overcome. What is fascinating if you hear enough stories is that there are some strategies that are used again and again. Knowing these strategies can help you achieve your own entrepreneurial dreams. What are the strategies? Some of them you have heard all your life; others might be new: If you don't succeed the first time, try, try again: This is called the strategy of perseverance, and has famous examples like Thomas Edison's testing of more than 8,000 different materials to find one that would work correctly for his

lightbulb. Like Edison, it works only if you try different people, products, or pitches.  Scale back: Maybe you have an idea but can't get the resources to get it started. Try scaling it back to the level of resources you currently have available. If you can't afford to open a restaurant, consider starting with a food truck or a catering service, or make yourself into a rent-a-chef service.  Bird in the hand: Instead of planning a firm and then looking for resources, why not start with the resources you already have (knowledge, contacts, money, etc.) and think about what is the best use you can make of them? This is one of the strategies of the technique of effectuation, which will be covered in more detail in Chapter 6.56  Pivot: Go ahead and start the business in any way you can and look for better opportunities as you go along. It happens all the time. William Wrigley Jr. started out selling soap and baking powder and, to get people's attention, he gave away gum as a promotional item. Wrigley switched to selling gum when he realized how popular a product his Juicy Fruit gum was.57 This approach is also called the corridor principle because until you start going down the corridor (or in your case, doing your business) you can't tell what opportunities you might find.58  Take it on the road: Sometimes the place you live isn't the best market for your product or service. Trying another market (in person or via the Internet) might help you find the traction you need to succeed.  Ask for help: Today everyone can harness the wisdom of crowds, whether it is asking your personal and group connections on Facebook or LinkedIn for ideas, advice, opinions, or donations, or going to the many specialized websites out there for crowdsourcing such as Kickstarter.com (like Pixel Press did) or Indiegogo.com for funding or Coolbusinessideas.com or Quirky.com for finding or testing product ideas.  Plan to earn: Think through your capabilities, prospects, and passions to find the best idea for you, and then plan for action to make it happen.  • Pixel Press, outlined in the vignette opening this chapter, obtained a lot of their startup funding from a crowdfunding campaign on Kickstarter.com, which is shown to the right. The materials you see here resulted in an oversubscription, raising $108,950 in a campaign seeking $100,000. People donating did not get equity, but gifts or consideration from Pixel Press. For example, a $1 donation got donors access to emailed updates and videos.  Pixel Press, "Kickstarter," https://www.kickstarter.com/projects/robinrath/pixel-press-draw-your-own-video-game.  In this chapter we have considered some of the key ideas and myths about small business. We have seen the work of founders of small businesses that stayed small and those that started small and grew larger. Either way, when small businesses are created, nearly every part of our society benefits—through new jobs, new ideas, and the new opportunities created for individuals, communities, and the economy. The key element in getting small businesses started is helping people who have the intention to start a business take the steps to get it done, and that is the goal of this text. If we can help you follow in the model of Robin Rath, you are certain to do well. He did.  Page 22  LEARN MORE ONLINE Learn more about the topics above at these sites:  Inspirational

images for entrepreneurs: Kauffman Foundation, www.pinterest.com/kauffmanfdn/entrepreneurial-inspiration/?lp=true Inspirtational stories: Entrepreneur magazine, www.entrepreneur.com/topic/inspiration Why firms fail: Autopsy.io, http://autopsy.io/

CHAPTER SUMMARY 1-1 Understand the scope of small business in the United States. The entrepreneurial process consists of four steps: feel, check, plan, do. There were 15.5 million entrepreneurs in the United States in 2015. About 50 million Americans were part-time entrepreneurs at the same time. Start-up success comes from combining planning and action, as well as believing in yourself. Getting help helps your chances of business survival. Successful entrepreneurs not only do well, they do good for others. An entrepreneur (alias self-employed or owner or owner-manager or founder) is someone who owns a business. An entrepreneur can create a new business or buy an existing business or a franchise. The CSI model describes how entrepreneurship plays out in our society through corporate, social, and independent entrepreneurship (which includes small business). 1-2 Differentiate between small businesses and high-growth ventures. Small businesses form the economic core and largest segment of the economy. Small businesses range from low to moderate in innovativeness and growth rate. Small businesses are usually intended to remain small, generally a size that the owner feels comfortable controlling personally. High-growth ventures have high innovativeness and growth rates. Page 23 Every owner has a chance to decide on his or her firm's approach to growth. Lifestyle/part-time firms start and remain small and centered on the owner's needs. Traditional small businesses are more customer-driven, but remain small and simple, providing an income for the owner. High-profit businesses add employees and locations in order to provide a substantial income to the owner. High-potential ventures attempt to grow enough to become a big business. 1-3 Dispel key myths about small businesses. Dispelling the myths is important to supporting one's motivation to become an entrepreneur. Myth 1: There's not enough financing to start businesses. While we all would like more money, the vast majority of people starting small businesses report finding funding is not a problem. Myth 2: To make profits, you need to make something. Today the most profitable small businesses are typically in the service sector. Myth 3: If you fail, you can never try again. Lots of successful entrepreneurs have one or more failures in their background. If you pay off your debts and learn from the experience, you are positioned to try again. Myth 4: Students (or moms or some other group) don't have the skills to start a business. Facebook's Mark Zuckerberg was a student, Mary Kay's Mary Kay Ash a mother, and Samuel Adams's Jim Koch a consultant when they started their businesses. You could too. Myth 5: Ninety percent of new businesses fail within two years. In reality, 69 percent of

new businesses are still going after two years. 1-4 Identify actions key to becoming a small business owner. The BRIE (boundary-resources-intention-exchange) model describes the actions that need to take place for the business to be created in the earliest stage. The more BRIE activities that were pursued, the greater the likelihood of the new business surviving. The BRIE checklist gives easy-to-perform actions to help move prospective entrepreneurs from inaction to action. The BRIE actions also identify the competencies you need to master to get your business started. 1-5 Recognize how small businesses are important to our economy and your community. Small businesses are important because they are the major source of new jobs in our economy. Small businesses are also the major source of innovations in society. Small businesses offer many benefits to localities including employment, taxes, new revenue inflow, support for other businesses, and visibility. Small business is also the major source for new opportunities, such as moving up in the economy and society, the opportunity for customers and businesses large and small to obtain needed goods and services. Exporting through VIGE and traditional approaches is a major economic force for small businesses worldwide. 1-6 Recognize the seven key strategies of the entrepreneurial way. Persevere: When you don't succeed the first time, try, try again. Scale back: Start smaller and build up. Bird in the hand: Do the best you can with what you already have. Pivot: Start up and keep your eyes open for better opportunities along the way, then pivot into them. Take it on the road: Go where there is a receptive market. Ask for help: Get help from friends, from crowds; getting help helps. Plan to earn: Plan now to map your actions.

KEY TERMS small business self-efficacy entrepreneur occupation goods or services firm novelty imitative self-employed founders franchise buyers Page 24 heir independent entrepreneurship social ventures social entrepreneurship sustainable entrepreneurship green entrepreneurship corporate entrepreneurship CSI entrepreneurship forms of entrepreneurship opportunity-driven entrepreneurship necessity-driven entrepreneurship factor-driven economy efficiency-driven economy innovation-driven economy small and medium enterprise (SME) independent small business owner-managed firm serial entrepreneur innovativeness overall growth strategy lifestyle or part-time firm traditional small business high-performing small business high-growth venture unicorns main street businesses crowdfunding P2P lending drop-shipping bootstrapping Small Business Administration (SBA) creative destruction importing exporting e-commerce virtual instant global entrepreneurship (VIGE) perseverance effectuation corridor principle crowdsourcing.

DISCUSSION QUESTIONS Describe the population of small businesses in America. How many firms are there and how many new firms are started each year? Why do you think 56 percent of 15- to 25-year-olds say they would like to start a small business, but only about 15 percent who express an interest actually do anything? What are the differences between small businesses and high-growth ventures? Describe the BRIE model and how it applies to creating a firm. Why are small businesses better at innovation than large businesses? Why is the presence of small businesses important for large businesses? Take 10 businesses that operate in your community and categorize them in the appropriate type of overall growth strategy. Why did you put them there? Many people think of the United States as one of the most entrepreneurial countries in the world. Are there other countries with higher levels of entrepreneurship? Name two and explain why their levels of entrepreneurship might be higher than that of the United States. How does the story of Jim McKelvey reflect the key ethical idea of this chapter, "Do well. Do good"?

EXPERIENTIAL EXERCISES Put this search into Google to find entrepreneurs from your school: "entrepreneur and [your school name] site: linkedin.com." Look at the first 100 names and see if you notice any patterns about what kinds of businesses they run. Your instructor might give you other aspects of their lives to look for. Can you find examples of corporate, social, and independent entrepreneurs in your town? Are there examples of people who have done more than one type of entrepreneurship in their lives? Check your state and locality's website(s) for information on programs that support economic development through small business creation and job creation. You can get a start at USA.gov's State Business Resources page: www.usa.gov/state-business. Pick a state and make a list of programs that might be worth looking into as you develop your business idea. Page 25 Look at the local newspaper's website, or the bizjournals.com website for the paper in your region. Search the terms "entrepreneur" and "small business owner" to find articles about local entrepreneurs. From this, compile a list of prospective local small business heroes and heroines to serve as role models and prospectors for local sources of help. For students in your class thinking about (or in the process of) starting their own businesses, find out which of the BRIE items they have completed. Ask them which items they expect they will complete or get help on by taking this class.

MINI-CASE CSI ENTREPRENEUR-TO-BE JOLENE ADAMS59 Jolene Adams was a student with an interest in helping fight "food insecurity" in St. Louis. Food insecurity can occur when people aren't getting enough food or are not sure they can afford or find enough food to feed their families, or when grocery stores are too far away for them to readily get to.

Measured these ways, over 25 percent of the people in the city of St. Louis are food insecure or live in what are called “food deserts.” You can check the USDA’s food insecurity map at www.ers.usda.gov/data-products/food-access-research-atlas/ for maps of food deserts at the neighborhood level. Jolene wanted to help by creating a service to get low-cost or free food to people in neighborhoods with the highest food insecurity. She imagined a bus or truck fitted with shelves and bins containing food, which they would drive to those neighborhoods so people can shop near their homes. She was trying to decide the best way to organize their business. There already was St. Louis Metro Market, a seasonal bus-based market organized as a nonprofit. You can see a video at www.youtube.com/watch?v=ritI5ZwUK4I. So, Jolene could approach them about starting a second bus, or staffing a second shift on their current bus. This could make her a corporate entrepreneur and part of an existing organization. She could create a new nonprofit organization for her bus or truck, making her a social entrepreneur. Or if she wants to, she could organize as a for-profit business, hopefully with low prices to help her customers, making her an independent entrepreneur. Since the need was known to exist and solutions to the problem also were known, the initial question for Jolene was, what is the best way to approach the business? See this YouTube news video on food deserts for more information: www.youtube.com/watch?v=_lZwBMeogG8. CASE DISCUSSION QUESTIONS What do you think are the advantages and disadvantages of the corporate, social, and independent entrepreneurial approaches outlined in the case? How would you feel about being a corporate entrepreneur who is part of an existing organization? How about as an independent or social entrepreneur starting your own organization from scratch? All businesses need to break even financially to be seen as workable. For-profit businesses also typically measure how much profit they make as one metric of their success. But businesses can also measure the impact they have on their communities, customers, economies, and environment. What kind of impact measure might it make sense to consider for the proposed market? Does it change depending on the kind of CSI entrepreneurship approach you choose?

CHAPTER 2 Small Business Entrepreneurs: Characteristics and Competencies Page 27 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 2-1 Recognize the key aspects of the entrepreneurial personality. LO 2-2 Assess the operational competencies of the successful entrepreneur. LO 2-3 Identify the challenges women and minority business owners face. LO 2-4 Describe the situation of people who become second career (or veteran) entrepreneurs. LO 2-5 Recognize the special nature of entrepreneurial teams. LO 2-6 Describe the challenges of family business owners. LO 2-7 Recognize the stages of development entrepreneurs and their firms go through. LO 2-8

Discover the rewards entrepreneurs can achieve through their businesses. • Being open to new opportunities and being willing to take on challenges are essential qualities for entrepreneurs like Khalia Collier to fulfill their career and life goals while also helping their home communities. What other entrepreneurial skills and qualities enabled Khalia to grow her business into what it is today? Khalia Collier Focus on Small Business: Women's Basketball Team Owner and General Manager Khalia Collier1 The City of St. Louis had been begging for a professional basketball team ever since the loss of the former ABA-NBA Spirits of St. Louis, back in 1976. Who knew that 35 years later a professional basketball team would once again reign in the city? Only this time, women's basketball would become the talk of the town. Khalia Collier, a St. Louis native and former player, became one of the youngest sport team owners in the country in May 2011 after the 23-year-old bought out the ownership of the St. Louis Surge professional women's basketball team. Khalia began playing basketball at the age of five and fell in love with the game. Her talents on the court prompted her to become one of the top players in the region, setting several impressive records during her time as a student-athlete. She ultimately decided to commit to Columbia College and later Missouri Baptist University, both smaller universities where she would be able to continue playing varsity basketball while simultaneously dedicating herself to graduating with a degree in communication studies. After graduation, Khalia began working for a Fortune 500 company, but she continued to play basketball when she could. Doing this, she discovered a semiprofessional women's basketball team, the St. Louis Surge. When Khalia thought about it a light bulb went off in her head as she instantly saw the potential the franchise had to thrive, and her natural ambition and grit took over. She felt her corporate experience, along with her passion for basketball, her family's entrepreneurial background, and her deep commitment to the city of St. Louis prepared her for the next phase of her life—becoming the owner and general manager of the St. Louis Surge. In 2013 under Khalia's leadership the Surge began rebranding: new logo, staff, coaches, and roster. It was the beginning of a new chapter and a glimpse of what Khalia and the Surge would continue to build. She was determined to revolutionize the impact of sports in the community. To do so, Khalia took a creative approach by recruiting players that could serve as role models and mentors for the youth in the community. All players are required to obtain a college degree. Khalia thrust them into the community, arranging mandatory schedules for the players and herself to attend school appearances, host sports camps, provide community service, and participate in other local events. Building on this, Khalia secured several partnerships with local and national businesses to assist in brand expansion. Page 28 Khalia's strategy of growing the team by pursuing community engagement, promoting the development of leadership, and showing the importance of education embodies her personal philosophy and applies it to her team and community. Because of Khalia's drive and the ideas for improving the team, attendance at Surge games

has grown from 50 or 60 when Khalia took over in 2011 to thousands of fans per game today. And on the court Khalia's Surge has won two national championships and has been four-time runner-ups in seven years. Her boundless energy and ability to see new opportunities keeps her charged up to continue making history. For videos on Khalia Collier, see www.tedxstlouis.com/speakers/khalia-collier-owner-and-general-manager-st-louis-surge/ and www.youtube.com/watch?v=75mUw65WfkE. DISCUSSION QUESTIONS Why did Khalia Collier decide to become an entrepreneur? What skills did she develop to become a successful entrepreneur? What opportunities did Khalia find and pursue?

The Psychology of Entrepreneurs 2-1 Recognize the key aspects of the entrepreneurial personality. In the opening vignette, Khalia Collier displayed three of the key characteristics of successful entrepreneurs introduced in Chapter 1: She believed in herself and her ability to create a business that would let her do work she loved and help her community. She depended on help from family, friends, and associates to learn her business, and she persevered over several years until she achieved her goal. These are aspects of Khalia's behavior, her way of looking at and thinking about herself and her world, that are called cognition, and her visible actions. Is Khalia's pattern of entrepreneurial behavior the only type there is? The answer is that there is no one pattern of entrepreneurial behavior or entrepreneurial type. In Chapter 1 we categorized the entrepreneurs around the world into opportunity-driven and necessity-driven types. We talked about entrepreneurs in corporate, social, and independent settings and how their focuses differed. We even discussed the four kinds of overall growth strategies entrepreneurs typically design their businesses around. There are literally hundreds of ways to think about entrepreneurial personalities. That is good because it means there can be more than one personality type that can lead to success, and it increases the likelihood that there is an approach to entrepreneurship that will fit with your interests and style. Successful entrepreneurial behavior leads to the creation of a new firm that meets the goals of the entrepreneur. For some entrepreneurial behaviors such as selling (think hard sell vs. softer sell) there is more than one way to do the job right. For other behaviors, there can be only one right way to do it (e.g., applying for a loan, registering a business). In this chapter we will consider the ways people are different, the ways they are the same, and close with a look at the patterns leading to successful entrepreneurial behavior for several distinct groups of entrepreneurs. The Five Ps of Entrepreneurial Behavior There are five aspects of behavior that most successful entrepreneurs display. These are not the only possible behaviors that you could consider, but they are behaviors that have been shown in the research to relate to success among entrepreneurs. The five behaviors include the following: Passion: Passion is an intense positive feeling the entrepreneur has toward the

business or even the idea behind the business. It comes from being actively involved in moving the business forward. Passion has multiple benefits, such as increasing your commitment to the business (which relates to perseverance), and inspiring key stakeholders like potential investors, employees, or subcontractors. Passion is displayed in three ways: (1) by looking at the challenges of the business in a creative way, (2) by being persistently focused on the business, and (3) by being absorbed by the tasks and concerns of the business.2 When we talk about entrepreneurs who "live for the business," we're talking about passion. When you see entrepreneurs get excited as they describe something about their business, we see and respond to their passion. Page 29 Perseverance: Perseverance is best thought of as a type of learned optimism,3 the ability to stick with some activity even when it takes a long time, and when a successful or unsuccessful outcome is not immediately known. It is one of the most powerful contributors to entrepreneurial success like that of J. J. Rosen who literally taught himself programming to make his business work (see the following Small Business Insight).4 In Chapter 1, we talked about the strategy of perseverance with the old expression "If you don't succeed the first time, try, try again." Trying again is the behavior behind perseverance, but requires thinking about what went wrong and what went right, and adjusting your next try to achieve a better result. Behind this thinking and behavior is the attitude of learned optimism, knowing that you can and will keep at this until you have mastered it.5 The danger is to keep trying the same action repeatedly without learning. That is a problem behavior called perseveration. Promotion–Prevention Focus: Most of us have some mix of two internal focuses (also called our regulatory focus), a promotion focus intent on maximizing gains, which gives us a bias toward pursuing opportunities likely to lead to those gains, and a prevention focus intent on minimizing losses, with a bias toward inaction or protective action.6 Being a successful entrepreneur involves balancing the two focuses. In an established industry or a poor one, a prevention focus can work well, while a promotion focus can yield better results in richer, dynamic, uncertain environments or industries.7 A reckless pursuit of opportunity may bankrupt your company, while a protection-at-all-costs focus may mean you will miss the opportunities necessary to keep cash flowing into your firm. Successful entrepreneurs deal with preventing problems by planning ahead of time and creating actions to avoid or deal with problems. For J. J. Rosen, keeping his day job until his software business took off was one way to protect his family and business. Those same successful entrepreneurs also plan where to find opportunities and how to pursue them. But planning is rarely perfect; you have to be ready to act when the situation demands it. Your own promotion–prevention balance is likely to come into play in those quick decision situations. Trust your plans, and where the plans don't have the answer, trust your "gut" or intuition. Entrepreneurs may have regrets about their choices, but they generally feel better having taken charge of the choice process.8 • Passion is an intense positive feeling about

what you do, and this entrepreneur clearly has it. How do you display passion when you feel it? Hero Images Inc./Alamy Stock Photo Page 30 Planning Style: There is more than one way to plan. In fact, there are five ways.9 Comprehensive planners take a long-term view, develop long-range plans for all aspects of the business, are comfortable with planning, and act based on the plans they've developed. Critical-point planners plan around the most important aspect of the business first, act on it, and then consider if additional plans are needed. It is not a very long-term approach to planning. Opportunistic planners generally start with a goal and look for opportunities to achieve it. Once they find a good opportunity, even if it isn't the one related to their original goal, they act on it, so it is very short term in orientation. Reactive planners are completely passive, waiting for cues from the environment to determine what actions to take. Their focus is entirely short term, and there is little in the way of goals driving their efforts. They can make the most of a situation because there is no other plan competing for their attention. Habit-based planners do not really plan at all because their actions are dictated by their routines. They do today what they did yesterday. They don't plan, and they don't even tend to react to changes in their environments. Simply put, results from small business owners in countries around the world have shown that in terms of getting a start-up launched, keeping it going, and making a living from it, comprehensive planners do the best, followed by critical-point planners, and opportunistic planning types.10 Reactive and habit planners generally do very poorly in business, even if they manage to get their firms started. SMALL BUSINESS INSIGHT J. J. Rosen and Atiba Software and Consulting11 After graduating from Vanderbilt University in 1992 as a psychology major, J. J. Rosen landed his first job as a child-support coordinator for the Tennessee District Attorney General Conference, an administrative branch of the state's court system. As he closely observed the work processes, he soon realized that much of the work performed by the state's child-support collection agencies could be done more efficiently and effectively if it were computerized. There were just two problems—many of these agencies had no computers, and no specialized computer software existed to handle the type of functions needed by the organizations. J. J. set out to resolve this problem, fulfill a need, and take advantage of this potential business opportunity. Here J. J. faced his third problem: While he had an idea for software, he did not know how to write a computer program. Driven to make his idea a reality, J. J. taught himself this skill. A few months later he had mastered programming well enough to create child-support services software that could track child-support payments and collection efforts. With this product, the Atiba Software and Consulting Company was born as a part-time venture. Promoting his software as a better idea and offering very low prices to get an initial customer base, he sold the software statewide. Soon his business was growing through word-of-mouth advertising, and he landed his first major client, Andersen Consulting, within a year of starting. Only then did J. J. quit his job in the district attorney's office and

embark on his own business full time. By 2019 Atiba (atibasoftware.com) had more than 800 clients. For J. J., the idea drove the business, carefully.  Professionalization: One hallmark of successful entrepreneurs is that they usually do at least one thing much better than average. That average is called a standard business practice and every industry has them. Doing that level or better is what professionalization is all about. There are three levels of professionalization: expert business professionalization when most aspects of the business meet or exceed the industry's standards, specialized business professionalization when one or two aspects of the business are at this level, or minimalized business professionalization when none of the aspects of the business achieve the industry standard. Consider the oldest professionalized firm in the world, the Zildjian Company. The company started in Turkey in 1623 with a formula for making an alloy ideal for cymbals. At this stage the company was specialized. In 1929, when Avedis Zildjian inherited the company, he moved it to America and applied his marketing, financial, and business knowledge to bring the firm up to the level of expert professionalization, where it remains today.12  Page 31  Notice that these behaviors are relevant to more than starting a business. They are useful behaviors in business in general and even in life. If you are an employee, your bosses will want you to show passion (often called engagement) in the business, be persevering, and strike a balance of promotion and prevention. The fact that these five ideas are behaviors means that you can learn how to display them, even if it is not the way you were behaving originally. That is what education, skill development, and practice are all about. Each of these types of behavior can be assessed formally using psychological questionnaires, but you can make a general assessment with items like those in Skill Module 2.1.  SKILL MODULE 2.1 Entrepreneurial Personality Overview13 The complete assessment of each of the five Ps would require more than 100 questions, but you can get a very general sense of how you lean by answering and scoring the questions below.  In the following questions, determine how strongly you agree with the statement from 1 (Strongly Disagree) to 5 (Strongly Agree). If you are not sure, make your best guess. Table Summary: Table divided into six columns shows statements for assessing entrepreneurial behavior based on ratings. Column 1 notes the statements. Columns 2 to 5 notes the scores from 1 to 5 with columns 2 and 5 marked as: strongly disagree and strongly agree. Strongly Disagree  Strongly Agree I am better than my peers at being able to solve problems.  1 2 3 4 5 I am better than my peers at making money.  1 2 3 4 5 I am better than my peers at being creative.  1 2 3 4 5 I am better than my peers at getting people to agree with me.  1 2 3 4 5 I am really excited to be establishing a new company.  1 2 3 4 5 I am really energized by owning my company.  1 2 3 4 5 I am really in love with creating a new firm.  1 2 3 4 5 I am really excited to create something out of nothing.  1 2 3 4 5 I really enjoy nurturing a new business through its emerging success.  1 2 3 4 5 My personal philosophy is to do "whatever it takes" to establish my own business.  1 2 3 4 5 I would rather own my

own business than earn a higher salary employed by someone else. 1 2 3 4 5 Owning my own business is more important than spending time with my family. 1 2 3 4 5 There is no limit to how long I would give a maximum effort to establish my business. 1 2 3 4 5 Overall, I am more oriented toward achieving success than preventing failure. 1 2 3 4 5 I often think about the person I would ideally like to be in the future. 1 2 3 4 5 I frequently think about how I can prevent failures in my life. 1 2 3 4 5 I am anxious that I will fall short of my responsibilities and obligations. 1 2 3 4 5 Page 32 For the next set of questions, rank them by putting a "1" by the statement that most closely fits your approach or belief, "2" by the next closest fit, and so on. Table Summary: Table (above) divided into two columns shows statements to be rated based on entrepreneurial behavior. Column 1 notes the rank (1 to 5). Column 2 notes the corresponding statements A to E. Table (below) divided into two columns shows statements for personality review. Column 1 notes the rank (1 to 3). Column 2 notes the corresponding statements F to H. Rank (1–5) I am most comfortable when I have planned for everything. If I've taken care of the biggest challenge, I feel my job is done. I am always looking for the next big thing, and when I find it I go for it. If someone offers me a good opportunity, I'll go for it. Whatever happens, I stick to what I have been doing all along. For the next set of questions, rank them by putting a "1" by the statement that most closely fits your approach or belief, "2" by the next closest fit, and so on. Rank (1–3) I feel best when everything I do is done the best way possible. I think it is important to be known for doing one thing extremely well. I believe it is more important to get the job done than to try and make it perfect. Scoring of the Entrepreneurial Personality Overview can be found in endnote 14.14 One other approach to thinking about the entrepreneurial personality that has seen a lot of attention recently is the idea of the entrepreneurial mindset.15 In Google searches, it has eclipsed searches about entrepreneurial personality.16 But at this point, there are multiple models for explaining and measuring the entrepreneurial mindset, like those of the Network for Teaching Entrepreneurship (NFTE), the Keen Engineering Entrepreneurship Network, the Gallup Organization's Builder Profile 10 (BP10), Eckerd College's Entrepreneurial Mindset Profile, and Mindcette.com's MindCette Entrepreneurial Test. Most require you to pay a fee in order to see your full results. A free approximation comes from the Canadian government's Business Development Bank website. Google "bdc entrepreneurial self-assessment" to find it.17 Its dimensions are pretty representative of the different models, consisting of motivations (need for achievement, power/control appeal, ambition, self-sufficiency), aptitudes (perseverance, self-confidence, tolerance toward ambiguity, creativity), and attitudes (acting on your destiny, action orientation). LEARN MORE ONLINE Learn more about the topics above at these sites: UK universities' Entrepreneur Test (a relatively serious psychometric test): www.psychometrictest.org.uk/entrepreneur-test/ Harvard Business Review's entrepreneur test (gives you a general idea, not a full workup):

https://hbr.org/2010/02/should-you-be-an-entrepreneur Entrepreneurial Operational Competencies 2-2 Assess the operational competencies of the successful entrepreneur. All the aspects of the entrepreneurial personality depend on hard work, but there are other specific types of business-related expertise—called competencies—that appear repeatedly in successful entrepreneurs around the world.18 While there could be as many competencies as there are personality types, theories, like the BRIE (boundary-resources-intention-exchange) model introduced in Chapter 1, help us focus on those few competencies that are essential to successfully starting and running a business. After you have read about these entrepreneurial competencies, use Skill Module 2.2 to assess your competencies. Page 33 The competency suggested by boundary in BRIE theory relates to the organizational and business processes of a firm. This type of expertise can be called basic business competency.19 There are certain fundamental activities that all businesses must perform, which are called the key business functions, and include sales, operations (also called production), accounting, finance, and human resources. Getting organized and registered—which creates the boundary—is an example of an operations activity. There is also industry-specific knowledge. A restaurant really is different from a mechanic's shop or a computer store or a portrait studio. Each requires you to understand a particular industry and market, and each requires a very particular kind of skill. This was a large part of the reason that Khalia Collier, in the example at the start of this chapter, worked for others before going off on her own. Some of these skills focus on knowing your new business and its context (Chapters 5 and 6), having the kind of skills that fit the business, being able to diagnose your business's health (Chapters 8, 12, 16, and 17), and being able to see future business opportunities while doing your everyday work (Chapters 4 and 7). Resources lead to specific resource competencies.20 For even the smallest part-time business, the entrepreneur needs to find or gain access to resources such as time, information, financing, space for the business, raw materials, and a variety of people (advisers, suppliers, service providers, customers). For J. J. Rosen of Atiba Software, getting the computer programming knowledge was critical. Knowing the best place to get raw materials or set up your operation, finding better information than your competition on your market, or having enough financing to ride out downturns in sales are examples of resources that could give you an advantage. You'll learn more about gathering resources in Chapters 5, 11, 13, 14, and 18. Intention reflects your determination to start your business and make it a success. These determination-driven skills can be called determination competencies21 and are demonstrated by focusing on your business over other choices and being ready to find out about and do what it takes to pursue opportunities that will help get the business going. The entrepreneurs we have mentioned in this chapter—Collier and Rosen—displayed tremendous determination to do the work and stick with the business through thick and thin. Many of these determination competencies are essential to

deciding if a business is feasible for you before you start a business, a topic that is covered in Chapter 4. Exchange deals with the actual process of exploiting the opportunity for profit—which is a fancy way of saying "making sales." The competencies that make this work are called opportunity competencies,22 which include identifying an opportunity, a product, or service idea that is likely to lead you to a profit and is ideally distinctive to your firm and, you hope, hard for others to copy. For Bill Gates when he developed Windows and J. J. Rosen when he developed Atiba, the opportunity each found was for creating software that would make life and work easier. You'll learn more about the opportunity process and protecting opportunities through strategic planning in Chapters 4 and 7, where we will discuss the strategy of imitation with a twist. SKILL MODULE 2.2 Competency Self-Assessment In this exercise, rank your skill or competency at different types of business activities. The goal is to see where you feel you have strengths and on which competencies you need to work. For each skill, think of a person or a company that does a really good job at that activity. Then compare your own performance to it using one of four levels of competency: needs development means that you still have to learn the skill; needs refinement means that you have the rudiments of the skill, but still need to practice it and carefully check your performance; competent means you can perform the activity consistently and without mistakes; excellent means you perform the activity as well as your role model, or nearly so. The categories of competencies are built from those listed in the text. Page 34 Table Summary: Table divided into three columns and five rows summarizes skills to compare an individual's performance at work. Columns 1 to 2 are marked as: skill and role model. Column 3, level of competency, is further divided into four sub-groups as: needs development; needs refinement; competent; and excellent. Row 1 to 5 are marked from top to bottom as: key business functions; industry-specific knowledge; resource competencies; determination competencies; and opportunity competencies. Level of Competency Skill Role Model Needs Development Needs Refinement Competent Excellent Key Business Functions Sales Operations (production) Accounting Finance Human resources Industry-Specific Knowledge Industry expertise Industry skill Market knowledge Ability to diagnose Ability to see opportunities Resource Competencies Business information Business financing Space for the business Raw materials Support people Determination Competencies Business as primary focus Ability to manage time Ability to find/get help Ability to sustain relationships Willingness to act Opportunity Competencies Found profitable idea Idea imitates with a twist or is new, but tested Idea is hard to copy Entrepreneurs often find it useful to copy this list and ask people who know them well to fill it in with them in mind. Good examples can include business consultants or bankers, people who have worked with you, or even family members. Comparing what others see to what you see in yourself can help you put in perspective which skills need further development or better demonstration to

others. In big business, such an approach is called “360-degree feedback,” but it can also be applied in small businesses. Research suggests that people can learn what they need to know to have adequate levels of expertise in all five competency areas. In fact, students who go through formal training or classes often score higher on the expertise tests than people running businesses.23 In addition to training or classes, you can get consulting assistance from public or private sources, or you can even buy expertise in package form by adopting industry standard techniques. You can use state-of-the-art services or you can franchise. Page 35 The presence and absence of certain skills makes a tremendous difference in distinguishing those who start businesses from those who don’t. But for those businesses that do get started, the amount of expertise is what distinguishes the more successful from the less successful firms. The concern about expertise leads to thinking about the level of professionalization you choose to use in your firm. LEARN MORE ONLINE Learn more about the topics above at these sites: Infusionsoft’s Entrepreneurial Type Test (a for-fun test): https://quiz.infusionsoft.com/ SBA’s Small Business Readiness Assessment (checks a lot of the key issues): https://eweb1.sba.gov/cams/training/business_primer/assessment.htm

The Sociology of Entrepreneurs Entrepreneurs can be as strongly affected by their social or sociological characteristics as by their personality characteristics.24 These sociological characteristics relate to the social groups to which they belong. Family, gender, race, nationality, religion, age, and other types of group memberships, such as being a member of a team or a veteran, are typical examples. Some of these memberships are important enough that they are protected from discrimination by federal laws, and government and companies dealing with the government make special efforts to support members of those groups. Others lack such protections but are still powerful influences on the individual entrepreneur. The challenges members of these groups face share some similarities, as do the programs designed to support them. To get an idea of how this works, the following section considers entrepreneurs in family businesses and teams, women entrepreneurs, and second career entrepreneurs. While there are lessons and advice given for each of the groups, the lessons can apply to everyone—for example, the techniques of time management, which are discussed in the “Family Businesses” section, or the methods for managing idea ownership, discussed in the “Entrepreneurial Teams” section. Women and Minorities in Small Business 2-3 Identify the challenges women and minority business owners face. Women-owned businesses are one of the fastest-growing sectors of all U.S. businesses.25 Between 1997 and 2015, the number of private businesses with at least 51 percent female ownership increased by 74 percent, while the rate for firms overall was 51 percent.26 Around 40 percent of all businesses are majority owned by women, with

another 8 percent equally owned by women and men.27 Although in 2018 there were an estimated 12.3 million businesses owned by women, women-owned firms accounted for only 4.3 percent of small business revenue nationally.28 Why the smaller impact? Generally it is explained by the kinds of occupations and industries women choose when starting their businesses. For example, Table 2.1 shows that more women choose service industries that tend to have lower average sales levels, while there are more men in construction and financial industries, which have higher average sales levels. Men also report more high-tech firms, as well as firms where technology is central to the business. Both are associated with higher firm sales.29 TABLE 2.1 Percentage of Women Entrepreneurs in Different Industries, 201231Table Summary: Table divided into four columns compares various industries based on number of women entrepreneurs. The column headers are marked from left to right as: industries with more women than average sup asterisk; percentage; industries with fewer women than average sup asterisk; and percentage. Industries with More Women Than Average* Percentage Industries with Fewer Women Than Average* Percentage Health Care and Social Assistance (doctors, dentists, residential and child care) 52.8 Professional/Scientific/Technical Services (lawyers, CPAs, consulting) 29.2 Educational Services 44.9 Accommodation and Food Services 24.7 Personal Services (e.g., beauty salons, dry cleaners, auto repair, etc.) 41.6 Finance, Insurance, and Real Estate 19.7 Administrative Services 37.4 All Other Industries 18.9 Retail Trade 32.1 Construction 7.4 Arts, Entertainment, and Recreation 30.7 *The average percentage of women across all industries was 30 percent. Source: American Express OPEN, The 2015 State of Women-Owned Businesses Report, May 2015, www.womenable.com/content/userfiles/Amex_OPEN_State_of_WOBs_2015_Executive_Report_finalsm.pdf. The entrepreneurs' goals in starting the business might also play a role. For example, men more often mention making money as a motivation, while women more often mention having flexibility for personal and family life. The overall growth strategies discussed in Chapter 1 also differ, with more women choosing single-person lifestyle firms over the small business forms that employ others. Along these strategy lines, women prefer less-risky firms, which also tend to be the firms with lower returns.30 Another idea from Chapter 1 was whether the entrepreneur chooses to start a business to pursue opportunity or out of necessity, here however American women and men report similar trends, with about 70 percent of each group mentioning opportunity.32 • Women- and minority-owned businesses are rapidly increasing due to unprecedented educational and financial opportunities now available. What are some of the challenges you perceive still facing minority and women entrepreneurs? LWA/Larry Williams/Blend Images LLC Page 36 Representing approximately 29.3 percent of all U.S. businesses, the number of minority-owned firms has likewise grown explosively in recent years.33 While the total number of U.S. self-employed edged up by less than 10 percent between 2007 and 2012, minority-

owned businesses witnessed a remarkable 27 percent growth rate.34 What are the reasons for such phenomenal growth in the number of minority entrepreneurs? The establishment of both public and private funding and networking initiatives have helped level the business playing field for minority entrepreneurs by offering information, advice, and funding access. Another explanation lies in the growth of racial and ethnic groups within the U.S. population, a trend that is expected to continue. Hispanics represent 12 percent of all American business owners, Asians 7 percent, and African Americans 10 percent.35 Page 37 Despite the growth in the number of women and minority entrepreneurs, both groups still face the challenge of access. Access refers to the simplest form of discrimination—often women- or minority-owned firms are simply excluded from the opportunities offered to firms owned by white males. This can result from the way that networks built from interpersonal relations in business exclude women and minorities. When business relationships build from shared hobbies, sports, or even college ties, social situations that are all male or largely white outside of work can lead to unintegrated business networks. Access problems for women- and minority-owned small businesses crop up most often as discrimination in financing.36 This means that they may not be given the same access to funds37 or contracting opportunities38 that white male-owned firms are given. For example, a national survey of small business finances found that minority business loan applicants were denied at twice the rate of whites, even though application rates did not vary by race.39 The same study found that Asian and Hispanic business owners pay higher interest rates on their loans. These differences in loan denial rates and in interest rates occurred even when all business-related differences were considered. There are two solutions for access-based challenges. One solution is institutional, when minority and women-owned small businesses pursue dedicated contracting funds, known as set-asides, among big companies and government agencies. The good news is that governments at all levels have special contracting opportunities for small businesses that are owned and operated by minorities or women. For example, the U.S. government allocated over $92 billion on set-aside-based contracts in 2015.40 Big companies and those with government contracts also have similar programs, typically with two to three times as much money as the federal government allocates.41 Qualification for set-asides requires certification as a business owned and operated by a woman, a minority, or a veteran (or combination).42 For corporations, certification is handled by organizations that are not affiliated with the government or big business, such as the National Minority Supply and Diversity Council or the Women's Business Enterprise National Council. Certification consists of proving that the business is truly owned and operated by a woman or minority. A similar process is used by the U.S. government, with the Small Business Administration certifying firms for the SBA's 8(a) Business Development Program, whose details are online at the SBA site. It is also good to know that the Commerce Department has the Minority

Business Development Agency (www.mbda.gov) that can provide help, along with local SBA, Service Corps of Retired Executives (SCORE), and Small Business Development Center offices. Certification is not for every women- or minority-owned small business. For example, the SBA 8(a) and most corporate certification programs require a business to be in operation at least two years. As is true for any program involving government or big business, the small business needs to put more energy and resources into record keeping than it might otherwise do, especially businesses that opt for minimalized or specialized levels of professionalization. However, for those businesses that qualify, certification provides a ready means of access to opportunity and to networks of businesses and government agencies which can be leveraged to gain access to other sectors of business. The second approach to solving problems of access is personal and involves making extra efforts to network. As discussed in Chapter 3, building a social network is central to business success. For minority- and women-owned businesses, networking is especially important because such firms need to network even more than other types of firms. While networking with other minority- or women-owned firms will feel comfortable, and lead to business within that group, the real gains in business require networking in more diverse and potentially less comfortable situations, such as industry and trade associations, chambers of commerce, and the like. Success comes from the number of different types of contacts one makes, and for a minority- or women-owned business, this requires having business contacts from other races, genders, ages, and sectors. Page 38 LEARN MORE ONLINE Learn more about the topics above at these sites: Small Business Administration's Office of Women's Business Ownership: www.sba.gov/offices/headquarters/wbo American Express's Women's Business Initiative: www.americanexpress.com/en-us/business/trends-and-insights/keywords/women-in-business/ National Association of Women Business Owners: www.nawbo.org/ Fundera's 15 Resources for Women Entrepreneurs: www.fundera.com/blog/business-resources-for-women-entrepreneurs Federal Reserve Bank Entrepreneurship Help: www.kansascityfed.org/community/smallbusiness Second Career and Veteran Entrepreneurs 2-4 Describe the situation of people who become second career (or veteran) entrepreneurs. A special group of entrepreneurs are called second career entrepreneurs—people who begin their businesses after having left, retired, or resigned from work. A related example of this are veteran entrepreneurs, who elect to become self-employed after their military service. Other examples include work in other profit or nonprofit organizations, or even when parents are no longer tied to caring for others at home.43 As increasing number of corporations merge, downsize, reorganize, and/or close altogether, many firms are offering attractive retirement packages to encourage employees to voluntarily leave the organization.44 Workers are opting to accept generous offers to retire early (between ages 50 and 64). People's decisions of whether to return to work

depend on their individual level of wealth (retirement income and savings), their health, and their work experience, as well as general economic conditions.45 More older adults (62 and older) are becoming self-employed today than ever before. From 1988 to 2015 there was a 20 percent growth in entrepreneurship among seniors.46 • Second career entrepreneurs face distinctive challenges such as adjusting to the entrepreneurial life as they retrench themselves. kali9/E+/Getty Images About a third of the second career types younger than 62 who return to work decide to become self-employed.47 Those who do face two challenges—adjusting to the entrepreneurial life and keeping personal finances out of the business. Working for others for most of their life, second career entrepreneurs are likely to have gotten used to having many of the daily chores of running a business done for them. Even for former managers, the mechanics of getting the location cleaned or the payroll checks written may have been things they could take for granted. As entrepreneurs, they have to do these things themselves or arrange to have them done. All entrepreneurs have to get used to a do-it-yourself approach, but this is a particular challenge for second career entrepreneurs at first. Page 39 The key for managing the demanding life of the entrepreneur is to get advice from people in your line of business, or from consultants (which can include the free consulting available through Small Business Development Centers, SCORE, or Veteran Business Centers) about the basic activities of the small business. Make sure you have all the demanding aspects of running a business covered. Pick one or two that are particularly hard or onerous and consider subcontracting those out in order to keep the early stage of the business manageable. The second problem is keeping personal finances out of the business.48 Often when individuals are mustered out, laid off, or given early retirement, they can receive lump-sum financial settlements. Frequently, people intending to become late career entrepreneurs plan to use a substantial portion of these funds to start the new business. Sometimes this happens because second career entrepreneurs see their personal funds as “easy money,” funds that can be obtained quickly and without a lot of hassles. The problem is that many people who take the easy money are also taking the easy way out. They fail to carefully consider how they will invest the money in the business, and how it will be used. Taking the easy way out can often mean second career entrepreneurs underprepare for the rigors of business, and they are risking their retirement nest egg. For second career entrepreneurs, the solution is to treat their own money as objectively as possible. Invest it only if you can make a strong case that the investment in the business is going to produce reasonable returns. Treat your own money as an outsider’s investment. Do a business plan and consider seeking outside funding from friends and family to help keep you honest about the chances for the business. Depending on how you ended up facing a second career, it can be made worse because of a loss of confidence.49 This can come from being laid off, from the “up or out” rules for career military, from being outside the regular workforce for decades, or even from retirement.

Regardless of the source, the change can make a tremendous difference in a person's level of confidence. Being given early retirement can be seen as a company's effort to replace expensive (if capable) older talent with junior people who work for less. But being laid off or downsized suggests that the person was expendable at best, deadwood at worst. The difference in labeling makes a difference in the second career entrepreneur's self-confidence. When there are self-confidence issues, the first solution is to take some time to get over the shock to self-image. Counseling, whether job or psychological, can also help tremendously. When the person is ready, the solution often involves redefining one's life. The goal is to describe life in ways that help the individual take control over it. A layoff or mustering out becomes an indication that it was time to move on. A downsizing becomes something that occurs to those best able to land on their feet. In taking control over the past, it can become easier to assert control over the present and future. The second self-confidence solution comes from networking. Entrepreneurs as a group are an energetic and optimistic group. Just talking to people you know, as Donna Herrle did (see the following Small Business Insight), or joining local entrepreneur organizations, such as the chamber of commerce or the local chapter of a trade or professional organization, can expose you to people full of energy and ideas. This is contagious, and as you hear the stories of persevering and overcoming challenges that abound among entrepreneurs, the possibilities for a successful entrepreneurial life seem to become more realistic. SMALL BUSINESS INSIGHT Donna Herrle50 Imagine getting an invitation to a wine and cheese party for a new business, where the owner shows a "before" picture of herself in her corporate garb and an "after" picture of her in her home office, wearing pajamas and slippers, with the adage "change is good" over them both. That is what Donna Herrle sent to business acquaintances, friends, former co-workers, and family when she started her Pittsburgh graphic design business, Drawing Conclusions. A graphic designer and former sales manager of design and print services, she was out on her own after being laid off from corporate America at age 51. That layoff had set off alarm bells for Donna, who feared the loss of security a regular paycheck had brought her. At loose ends after the layoff, she also wondered what she should, or could, do. Her turnaround and focus on starting Drawing Conclusions came about from talking to everyone she knew. She was surprised at how many others had been in or were facing the same situation, and the advice she got helped her make her own transition to self-employment. The advice she received again and again was to plan the business carefully and keep networking, and the work would come. And the work came. One client brought a project to the wine and cheese party, based on Donna's graphically impressive invitation. Five more projects came in within 10 days of the party. Within a year she had over 50 clients and gross sales in six figures. LEARN MORE ONLINE Learn more about the topics above at these sites: Small Business Administration's veteran business page: www.sba.gov/business-guide/grow-your-business/veteran-owned-

businesses  Veteran Entrepreneurs portal: www.va.gov/osdbu/entrepreneur/  AARP's Encore Entrepreneurs program: www.aarp.org/work/on-the-job/info-08-2012/become-an-encore-entrepreneur.html  SCORE's 50+ Entrepreneurs portal: www.score.org/resources-encore-50-entrepreneurs  Next Avenue start-up page: www.nextavenue.org/category/starting-a-business/

Entrepreneurship in Teams and Families Stories about entrepreneurs can talk about the individual and their challenges in getting their business started, but the world has even more stories of entrepreneurs who did not start alone. For many, entrepreneurship starts with finding the right person to partner with, or even starting the business within the family. We talk more about that below.  Entrepreneurial Teams  2-5 Recognize the special nature of entrepreneurial teams.  While the classic image of the entrepreneurial small business would involve the image of the solo entrepreneur, the modern reality is different. The majority of new businesses have a team of two or more co-owners, and the trend is toward even more businesses being developed by teams of entrepreneurs. Figure 2.1 shows you the breakdown from the Panel Study of Entrepreneurial Dynamics.  FIGURE 2.1Number of Owners Involved in Start-Ups from the Panel Study of Entrepreneurial Dynamics  Source: Original analysis using PSED 1 and PSED 2 data (covering 1998 and 2006, N = 1749) done by Kelly Shaver, College of Charleston, for Entrepreneurial Small Business, February 2019. Most teams are family related. In fact, 53 percent of teams are spouses or life partners working together. Another 18 percent of the teams have different arrangements of family members working together, while only 15 percent of teams are composed of unrelated business associates.51 That means about 400,000 new firms a year are started by teams, with about 320,000 started by family teams.52  Why so many teams? There are advantages to a team. When family members start a business, they start with already knowing and trusting each other. Teams are also likely to have more money, time, and expertise to put into a business. If the team members live together, they can save even more for the business.  When putting a team together it is important to work out key issues ahead of time. For example, team members might be putting different amounts of money or time into the business, but might be expecting identical returns, which creates an equity problem.53 A team can also face conflict over idea ownership (see the Small Business Insight), shared goals, and how to make decisions, especially when the team is evenly split on choices.54 Legal solutions to setting up partnerships are discussed in Chapter 17—being clear about responsibilities, trying to maintain boundaries between work and home, having outside advisers to help sort out thorny issues, as well as planning for how the firm

might end or change55—work just as well for teams composed of unrelated individuals as they do for couple-based teams. Page 41 SMALL BUSINESS INSIGHT Managing Idea Ownership on a Team In an entrepreneurship class students were supposed to work on teams around an idea. Greg, a student in the class, had an idea for an iPad stand with embedded lights that would pulse in time to music. He did a quick look online and did not find any such products available yet. The professor approved the idea as a project possibility for the class. Greg described the idea to the class, and two other students, Nancy and Jim, joined the team. They all worked on the project and did the presentation for a grade. After that, Greg said he wanted to concentrate on getting into law school and was planning to put the idea on hold. Nancy, however, wanted to go ahead with the idea and kept working on it. When Greg found out, he went ballistic. "She stole my idea!," he would tell anyone who would listen. The disputing alums came back to the professor. The first question was what was said to Nancy and Jim about ownership rights when they joined the team. It turns out Greg had not specified anything. In his own mind, however, Greg thought it should be obvious that the idea was his and that Jim and Nancy were contributing their labor for a grade. In Nancy's mind, it was clear that she and Jim were Greg's partners in the business, contributing their time, ideas, and sweat equity. Now they had to negotiate after the fact. Ownership problems like this happen all the time in teams. The best way to handle it is to come out right at the start and specify or negotiate who owns what. There is no one "right" answer; it depends on how the group, and in this case their larger organization (the school), handles it. Some schools56 maintain that all ideas generated for school projects belong to the school. Others say the idea belongs to the student, but in that case, which student? Where there are no school rules defining "ownership," everything starts with the person who has the idea. If the person with the idea wants to keep absolute rights to the ownership, he or she should not take on other team members, or take on only members who agree (in writing) that the idea belongs to its inventor, even after noninventing students contribute their work to it. Why would students work without ownership? It can be for a grade or to save themselves from having to come up with their own idea for the class, or for the experience, or for the bragging rights of "I helped bring that to market." On the other hand, the noninventing but contributing students can try to negotiate some ownership rights. But whatever is decided, the students involved should make sure everyone has a copy of the agreement. Emailing the agreement is a good way to show everyone was sent it at the same time. Page 42 Note that teams in start-up businesses are not limited to the owners. A small business with full-time or part-time employees or contractors is a team, and the owner or owners and their outside advisers or board of directors are yet another team. In picking teams, it is often better to pick people based on their passion for the business or the idea behind the business, and expect to train people to do the work the way you want. This produces a stronger organizational culture

and a more positive attitude in the firm.57 The exception is when the firm needs specialized expertise the founder doesn't have. In that case, it still makes sense to hire the expert whose passion for the new business is the highest. There is a special case of organizational culture for start-ups, called entrepreneurial culture. There are a variety of approaches to thinking about the specifics,58 but in the end there are five key elements: Passion for the Mission: The team needs to believe in the business, its goals, products, and services. Passion for the Team: Team members need to feel good about one another as people and professionals and want to help one another. It isn't enough to avoid toxic employees.59 Passion for the Customer: A team that is always thinking about the customer and how to make their experience better will in turn make customers passionate about the company. Passion for Innovation: If the team is always thinking about making things better for customers, one another, the firm, and its offerings, it will mean the best days are always ahead of all. Passion for Fairness: At the bedrock, an organization that seeks to always be fair creates teams and individuals who emulate this, so that even when things don't go as planned, people have a basis for making decisions and knowing what is ultimately important. In Chapter 18, we will talk more about how to select individuals for your firm, but the specific way you go about defining and making real your entrepreneurial culture will be an essential ingredient in picking and orienting the right people for your team and firm. Family Businesses 2-6 Describe the challenges of family business owners. We think that the U.S. economy is built on an array of very large, publicly held companies—General Motors, Boeing, IBM, Bank of America, Exxon, and others—but this is only part of the picture. Many of America's largest companies—Mars, Hallmark, Dell, Motorola, Nordstrom, Campbell Soup, fully one-third of the S&P 500 companies—are family owned and managed.60 Small and large, they make up over half the businesses in the United States historically and were the creators of well over half the new jobs in the United States.61 But our interests are in those small businesses that are also family businesses, and those represent 39 percent of American businesses, or about 10.8 million firms. Defined as firms with a majority family ownership and direct daily family involvement, family business is a major economic force, employing 58 percent of America's total workforce.62 Small, family-owned businesses have many advantages. If the business is managed at the top by a group of tight-knit family members, communication-based integration can be more effective and decision making can be easier and quicker.63 A strong family bond can become a strong business culture, enabling members to make effective, coordinated decisions with little or no formal communication. Family members already have developed strong relationships and interact on a regular basis both in and outside the workplace. Families are a major source of funds and personnel for new small businesses,64 providing a support network made up of people the entrepreneur knows and trusts. Family businesses are also a self-perpetuating source for future small businesses.

Many new entrepreneurs have been raised in families in which one or both parents or other relatives owned a family business,65 as you can see in the examples of the Ross and Enstrom families in the following Small Business Insight. As children of family business owners, these individuals learned how business works by observing their family at work. They gained early experiences that helped them develop the skills, competencies, and self-confidence that contributed to later decisions to become entrepreneurs and to their ability to succeed.66 In fact, most entrepreneurs come from families of entrepreneurs. Page 43 SMALL BUSINESS INSIGHT Two Routes to the Family Business67 Ross's Teal Lake Lodge and Teal Wing Golf Club is a family-owned business. Victoria Ross began helping wait tables at the Hayward, Wisconsin, resort when she was only 6 years old. By the time she was 18, she had moved into management positions. Having already earned her bachelor's degree in business administration, she is now working on her master's in global tourism. At 25, Victoria is ready to take over the family business. Jamee Enstrom Simons took a different track to management of her family's business, Enstrom's Almond Toffee. She began working in the company when still a child, hand dipping chocolates after school. Jamee eventually became a registered nurse, but when her parents expressed interest in selling the company, she and her husband bought it in 1993. Under her leadership, sales revenues for Enstrom's Almond Toffee reached nearly $15 million in 2019. Victoria Ross and Jamee Enstrom Simons both gained the confidence and skills they needed to succeed as small business owners from their early experiences in the families' businesses. There are two challenges typical to family businesses—role conflict and succession.68 Role conflict describes the kind of problem that arises when people have multiple responsibilities, such as parent and boss, and each makes different demands on them.69 As a boss, you might want your daughter to stay at the store and work, while as a parent you might want your daughter to take time off to be with her own children. Role conflict is at its worst when people fail to recognize it. Often, reminding yourself and others that you face multiple, conflicting roles helps them understand the types of choices that must be made and the kinds of decisions that are most important.70 For family business, the most effective approach for avoiding role conflict is to keep family issues out of the family business, as you can see in the case of Boyd Coffee (see the following Small Business Insight). Whenever possible, try and make decisions based on business necessities. When making a decision from a family perspective, broaden it to apply equally to nonfamily as well as family members. For example, if family members in the business can take off for their children's graduations, so should employees who are not part of the family.71 SMALL BUSINESS INSIGHT Boyd Coffee72 Boyd Coffee, started in 1900 in Portland, Oregon, had survived its first transition from founder P. D. Boyd to heir Rudy Boyd. Rudy's sons, David and Dick Boyd, grew up working in the family business. In 1975, Rudy officially retired, but he refused to leave the business. Even though David, the eldest son, became the CEO,

Rudy stayed on as board chair and for many years he remained an active and influential presence around the company—often to the irritation of son David. A few years after Rudy's "retirement," the board of directors of Boyd Coffee—Rudy, his wife Ellen, David, and Dick, then president—voted 3–0 (with David abstaining) to remove David as CEO and name Dick the new CEO. David and Dick believed the management change was based solely on members of the family taking sides in the David–Rudy conflict, rather than on sound business judgment. With the loss of the CEO position, David also wondered whether he had originally received the job because he had earned it through hard work and demonstrated ability or simply because of his name and family position as the eldest. Although after the awkward switch the brothers continued to work together for many years, their personal and professional relationships deteriorated to the point where they seldom communicated. The tension and lack of coordinated effort between the two inevitably led to the financial decline and instability of Boyd Coffee. Finally, in 1997, David threatened to dissolve the company. Only when faced with such a drastic possibility did the brothers begin the slow and difficult process of reconciliation. With the assistance and guidance of outside advisers and consultants, the brothers have now made succession planning their top priority. They have established a family trust that allows younger family members the opportunity to leave home and develop their business skills and networks independently. The brothers also have encouraged their children to gain work experience outside the family business before deciding whether they want to return to work for the company, something the brothers never got to do. Role conflict breeds another unending problem—the shortage of time. Entrepreneurs are among the most rushed people in the workforce. Part of this comes from the responsibilities of ownership. Entrepreneurs are always working, even if it is just thinking about what to do next at work. Add family responsibilities, and schedule overload is almost a certainty. There are, however, a collection of techniques for time management, which can help meet the challenges of schedule overload. Consider these basic methods: List—Whether you use apps like Wunderlist, Evernote, or Todoist, a pad of paper, a specialized form like a Franklin Planner, or Microsoft Outlook's Task function, the key to staying on top of your responsibilities is to list them as soon as you get them. Then as you finish them, you can enjoy crossing them off the list. 123 Prioritize—As you look at your list, prioritize your tasks based on their importance to your business and their due date. The most important tasks due soonest get a priority of 1. Tasks with lesser importance or a longer time to completion get ranked 2, and your "back burner" concerns get ranked 3. If there are tasks (of any level) that can be lumped together, so much the better. How do you decide importance? If the task will not help your business or family, it is probably not a priority 1 task. Delegate—Look at your task list and see which tasks you can get others to do for you (for free or at a price). When you're overloaded, getting more people on the job for you is a powerful way to get more done. Page 44 Repeat—Take a few minutes

every day to repeat the above steps. It will save you time later.  Strategize—Once a week, take a few minutes to look at the things you didn't do this week and check if you are overlooking something which could be important to your business, family, or yourself, but is getting overlooked in the short run. Entrepreneurs are notorious for overlooking their health and cheating themselves and their businesses out of time to think about the big picture and their firm's future. Ten minutes a week spent this way can make a world of difference.73  • Planning together for the future is key to the success of family businesses. What other factors are important?  Ariel Skelley/Blend Images/Getty Images  Thirty-nine percent of U.S. family-owned businesses are expected to face the retirement or semiretirement of their CEO within the next 10 years. This statistic grows in importance if you factor in the idea that only one-third of family-owned businesses survive beyond the first generation.74 Part of the problem can be an entrepreneur, like Rudy Boyd, who has difficulty letting go. Problems can arise when the owner cannot come to grips with retirement or envision someone else running the company.75 Owners often resist giving up control and undermine—consciously or unconsciously—potential successors.76 This is a problem because top managers at family firms tend to stay in their positions much longer than those at nonfamily firms. One study found that CEOs of family firms had an average tenure of 17 years as opposed to just 8 years for CEOs in other businesses.77  When the current owners are ready to think about what follows them, we get into succession—the process of intergenerational transfer of a business. Often the lack of a clear succession plan is the death knell for those family firms facing their first intergenerational transition.78 If the founder dies, becomes seriously ill, or is incapacitated before he or she can groom a successor, the new family leader may be suddenly thrust into the role before coming up to speed on vital company information and developing needed skills. Also, in the absence of a succession plan, private and public dissension among various factions of the family becomes more likely, negatively affecting operations within the firm, and may eventually cause the business to fail.79  Page 45  As is true of so many things in a successful small business, the answer lies in taking a professional approach to the problem. In this case the professional approach involves crafting a succession plan like the one created by Boyd Coffee after Dick became president. Succession plans deal with the people who will take over, what roles they will fill, and what supports (such as training, outside assistance, voting power, resources control) they will receive.80 Problems arise when there are no successors available within the family. One study found that only 5 percent of all entrepreneurs were able to rely on family members to take over.81 Sometimes none of the children have an interest in the family business. The opposite problem arises in situations like that at Boyd Coffee when several family members believe they should take over the top spot and vie for the position to the detriment of both family and business. Problems like the Boyd Coffee competition remind us that it is important to plan how disputes will get

resolved. Expect those disputes. The owners of a family business tend to be especially passionate about their enterprise, because they have a huge economic incentive to pay very close attention.82 One way to maximize communication in the succession process is to create a family council. A family council includes family members with immediate interests in the business (spouse, sisters and brothers, older children, etc.). The focus of council meetings is the business—family relationship. The meetings can also be a good forum for grappling with issues like role expectations, commitment, and personal responsibility.83 An advisory board, or a formal board of directors, can also contribute important skills and strategic direction. At Helzberg Diamonds, Barnett Helzberg Jr. set up a board to confront planning issues and to "help bring order (read professionalization) to the seat-of-the-pants decision making" at the firm. The board was critical to succession planning at Helzberg when trusted board members convinced Helzberg that he needed to step aside as president. He brought in someone else who had the skills to lead day-to-day operations while keeping the chairmanship himself.84 The key difference between a family council and a board of directors is that the function of the family council is to keep the family involved while the board is focused on running the business. The board includes significant nonfamily membership.85 Careful use of a family council can also help by keeping family members involved in an appropriate way, allowing you more room to maintain a different balance with your board of directors.86 In addition, a good plan, like the one Boyd Coffee developed, also talks about the handling of the assets of the company in order to minimize the tax burden on the family and the firm and provide a suitable income for the former owner and his or her household. Because of the legal, tax, accounting, and leader development complexities, succession planning is best done with the advice of experts.87 For family councils and boards of advisers, it is often helpful to get professional advice at the start, and then continue on your own. One organization that tracks experts in family business is the Family Firm Institute. Page 46 One special situation of the family business is the case of a married couple who jointly own and manage their business.88 You need only consider the divorce rate in general to realize that marriage and business can be a volatile mixture. The problems of a lack of agreement, difficulty keeping business and family issues separate, and how to handle endings89 are very much in evidence in couples' businesses, and the solutions are very much the same—being clear about responsibilities, trying to maintain boundaries between work and home, having outside advisers to help sort out thorny issues, and planning for how the firm might end or change.90 LEARN MORE ONLINE Learn more about the topics above at these sites: PricewaterhouseCooper's Family Business Survey: www.pwc.com/us/en/industries/private-company-services/library/family-business-survey.html Family Firm Institute: www.ffi.org/ Marriage.com's Marriage and Entrepreneurs page: www.marriage.com/blog/marriage-and-entrepreneurs/

The Entrepreneurial Life and Its Rewards So far in this chapter we have talked about the entrepreneur and his or her psychology and social setting, we have not talked about the reasons people mention for going into business for themselves and we also have not said anything about the life cycle of the firms entrepreneurs create, and that life cycle can have a profound influence on the life of the entrepreneur in their business. Both get covered below. The Entrepreneurial Life Cycle 2-7 Recognize the stages of development entrepreneurs and their firms go through. Like every person, every small business is unique. But just as we all go through childhood and adolescence on the way to adulthood, so do entrepreneurs' small businesses. There is a lot of predictability in this growth process, and knowing the developmental stages of the business life cycle can help you better understand your business and your career as a small business owner. The small business life cycle is shown in Figure 2.2. FIGURE 2.2The Small Firm Life Cycle Sources: Neil C. Churchill and Virginia L. Lewis adapted Greiner's model in "The Five Stages of Small Business Growth," Harvard Business Review, May–June 1983; William J. Baumol, "Entrepreneurship in Economic Theory," American Economic Review 58, no. 2 (May 1968), pp. 64–71; Gaylen Chandler and Steven H. Hanks, "Market Attractiveness, Resource-Based Capabilities: Venture Strategies and Venture Performance," Journal of Business Venturing 9, no. 4 (1994), pp. 331–349; Jerome Katz and William B. Gartner, "Properties of Emerging Organizations," Academy of Management Review 13, no. 3 (July 1988), pp. 429–441. Several models exist for the life cycle of the small business firm.91 Each divides the stages a bit differently. But all models have the same general ideas: (1) there are multiple stages; (2) the key issues, actions, and lessons at each stage are different from the other stages; and (3) the level of risk the business faces changes from stage to stage. For most small businesses, though, the usual sequence of stages is emergence, existence, survival, success, and resource maturity. Let's look at each of these stages to see what they involve for the small business and the key issue you can expect to face in each. These stages and business growth patterns are shown in Figure 2.2.92 Emergence is the stage in which a person thinks about and takes actions toward starting a firm. Typically a lot more people think about starting a firm than actually take steps to do so. For example, in 2010, 56 percent of youth aged 15–25 expressed an interest in owning their own firm. But by 2018, only 13.6 percent were actually taking steps to start a firm.93 Getting from entrepreneurial thinking to entrepreneurial action is the challenge of the emergence stage.94 Two techniques discussed in the book can help you move from thought to action. One is using the BRIE behaviors from Chapter 1 to start on the road to creating a firm. The other is to get into business part time (as discussed in Chapter 5) as a way to lay a foundation for future entrepreneurial action. Existence is defined by having the business in operation, but not yet stable in terms of markets, operations, or finances. In 2017, according to the GEM studies, about 7.8 percent of Americans were involved with businesses in their existence

stage. Existence is the second riskiest period after emergence. The reason risk is so high is that many business owners lack the key information or experiences they need in marketing, production, and management.95 The problems of mastering these three areas form what are called the liabilities of newness for small businesses in their existence stage. Page 47 The solutions for liabilities of newness come from getting expertise as quickly as possible. For most owners of firms, personally getting more experience is risky because it takes too long. The safer way is to obtain help from others. As noted in Chapter 3, developing an extensive social network is essential for the success of any firm. Whether you use family, friends, industry contacts, or free or paid advisers, getting help helps you survive. The success stage occurs once the firm is established in its market. Success stage firms show consistently growing financial performance, usually with slowly rising sales. Firms at this stage develop the information, skills, and most importantly the routines to grow the business's profits. Those profits aren't always taken in the form of money. Time off from work, a slower pace at work, or hiring additional personnel to take on more of the owner's tasks are all ways that these profits can be used to make the owner's life easier. Used that way, the extra profits are called slack resources by economists because they can be rechanneled into the business if needed. For most owners, though, these profits are called flexibility. All new businesses—from small businesses to high-growth firms—go through this stage. For most small business owners, this is a stage that lasts a long time. For the owners of high-growth businesses, this is a chance to catch their breath and lay the groundwork for the period of takeoff. The resource maturity stage will follow the success stage for most firms. This stage is characterized by a stable level of sales and profits over several years. At this stage, the functional areas, the market, and the products or services are all being dealt with consistently and efficiently. The challenge of maturity is to avoid complacency. After years of consistency, customers and businesses can begin to take each other for granted. For your business, that can be deadly because a competitor can come to your customer, show personal interest and competitive products or services or prices, and take your customer away. Since the rule of thumb is that getting a new customer costs five times as much as keeping an existing customer,96 every lost customer is important. How do you avoid customer complacency? Supersales executive Zig Ziglar says he learned from Australian psychologist Joseph Braysich the four key components for staving off customer complacency—recency, frequency, potency, and recommendation.97 Be in recent contact with your customers (recency), whether in person, by phone, or via the Internet. This is why you get so many emails and Facebook/Instagram notifications. Be in contact frequently (frequency); the more often they typically buy, the more frequently you want to touch base with them. When you do touch base with them, aim for something they will notice and remember (potency). This can be a personal connection or a message they can use or remember. The fourth is recommendation—either you recommending

something to them or asking them to recommend your firm to others. This can include making micro-commitments such as favoriting or liking or retweeting a post.98 Page 48 Although rare among small businesses, one possible variation is when the success stage leads into takeoff rather than resource maturity. The takeoff stage happens if a business embarks on a period of exceptional growth. For small businesses, it might come from landing an unexpectedly gigantic contract, expanding into multiple locations, or just being in the right place at the right time, as was the case when Square (from Chapter 1), Snapchat, or Instagram took off. The challenge firms face in the possible takeoff stage is to understand the nature and demands of growth and get some control over it. Managing takeoff involves working extensively with potential sources of funding and other key resources, as well as working with markets outside and employees within the firm. It also often entails relearning the processes that led to this level of success; a growth-oriented firm often needs to do things differently from one content with maintaining a stable state. That was very much the case for the creator of the jack-o-lantern leaf bag (see the Small Business Insight). One example of this is outsourcing or subcontracting for the growth-oriented firm to let the firm stay focused on its own key competencies. A growing nursery might subcontract out its bookkeeping and human resource functions so the managers at the nursery can focus on increasing sales and managing the expansion. SMALL BUSINESS INSIGHT Success = Opportunity + Danger Stuff-a-Pumpkins are the pumpkin-colored leaf bags you see on lawns around Halloween. You know the ones—they have a jack-o-lantern's face on them. They were the brainchild of Anita Dembiczak and Ben Zinbarg. Ben's company, Sun-Hill Industries, had been operating consistently for 17 years in Stamford, Connecticut. When he came up with the idea, he spent his own money to get the first run of bags made. They sold out instantly at the discount stores where he tried them out. The stores clamored for more and demanded immediate delivery! But Anita's, Ben's, and Sun-Hill's finances were tapped out, and the discount stores were months away from paying for the bags they'd sold. Ben went to his business banker, who refused to extend credit, even though he had contracts from big retailers. Twenty-three other banks also turned down Ben. He got the money needed to get out the next order by investing all his remaining personal money, securing a loan from a friend, and convincing suppliers and employees to delay receiving money owed them. He got the bags made and out to the retailers. But competitors meanwhile started to copy his bag, so he took the remaining money and started legal proceedings against these concept pirates.99 Eventually Ben succeeded in getting the pirates on the run, but he probably came to a new understanding of why the Chinese term for crisis consists of the symbols for opportunity and danger.100 Geri Lavrov/Photographer's Choice RF/Getty Images Page 49 It is important to remember that most small businesses never go through the takeoff stage, and for those that do, the takeoff path often moves them into the high-growth firm model and away from small business. For

firms that don't reach a possible takeoff stage situation, the jump is from the success stage to the resource maturity stage. The lesson of the life cycle model of business is that much of your firm's development as a business is predictable within some broad terms. Knowing the stages of the life cycle and where your firm is among those stages can serve as a powerful reminder of the kinds of issues for which you need to watch. Knowing the different possible life cycle paths for the resource maturity stage makes it possible to clearly choose when to grow, and what to expect if a higher-growth approach is in the cards for your firm. Rewards for Starting a Small Business 2-8 Discover the rewards entrepreneurs can achieve through their businesses. Why become an entrepreneur? If you said, "For the money," or, "To do things my way," you'd be right, but these are only a few of the reasons behind owning your own firm. We know that people go where they feel they have the best chance of getting the rewards they value most. The kinds of rewards people report are also fairly well known based on results reported from the Panel Study of Entrepreneurial Dynamics (PSED). The rewards mentioned by people in the process of starting their own firms are listed in Figure 2.3. FIGURE 2.3Rewards New Entrepreneurs Seek through Small Business104 Source: Nancy M. Carter, William B. Gartner, and Kelly G. Shaver, "Career Reasons," in William B. Gartner, Kelly G. Shaver, Nancy M. Carter, and Paul D. Reynolds (eds.), Handbook of Entrepreneurial Dynamics: The Process of Business Creation (Thousand Oaks, CA: Sage, 2004). Nearly all entrepreneurs talk about three key rewards—flexibility, a livable income, and personal growth. These are covered in more detail below. There are two other rewards—building great wealth and creating products, which entrepreneurs mention more often than working people in general. There are also rewards that entrepreneurs mention less often than working people in general. These are social rewards, like the respect or admiration of others, or power over others, and family rewards, like continuing a family tradition in business. Those items are marked with an asterisk (*) in Figure 2.3. These "go it alone" tendencies are probably a good thing, because they help entrepreneurs keep some distance from others and pursue what they think is right. The three most popular types of rewards for small business owners are growth, flexibility, and income. Growth rewards are what people get from facing and beating or learning from challenges. Self-professed computer nerd Marc Fleury's first venture went under with the dot-com bust.101 His second business, The JBoss Group, was built around the challenges of going it alone financially while outperforming and outlasting his first venture. JBoss, which sells programming and support services, was successful from day one, and was eventually sold to Red Hat. Until then it was entirely self-funded. Income rewards refer to the money made from owning your own business. For more than three-quarters of entrepreneurs, this means seeking to match or slightly better the income you had before you started your own business. Only one entrepreneur in four says that she or he is seeking high income through her or his business. But entrepreneurs are looking in the right place. More than 75 percent

of the millionaires in the United States are entrepreneurs.102 Two-thirds of the millionaires are business owners, and one-third are self-employed professionals like doctors, lawyers, or therapists. Flexibility rewards are perhaps the most rapidly growing type of reward. They refer to the ability of business owners to structure their lives in the way that best suits their needs. When Cyndi Crews was laid off from her work as an information technology resources manager of a large corporation, she bought a franchise of Schooley Mitchell Telecom Consultants. Today she advises companies on how to get the most from their telephone systems. She runs the business from her home in Lumberton, Texas, where she is able to set her own work schedule. This ensures her the flexibility she needs to take time off to be with her young son and husband.103 Another variant of this is pursuing spiritual or religious goals through business. For example, Noah's Ark, a Kosher deli with branches in Teaneck, New Jersey, and New York City, closes from 4 P.M. on Friday until 6:30 P.M. or so on Saturday night in observance of the Jewish Sabbath. Page 50 This chapter starts with the idea that while no single explanation can really cover all 15.5 million self-employed people in the United States, there are aspects of the entrepreneurial life that apply to many. Some of these are general ideas, such as the entrepreneurial career or the competencies needed to be successful in small business. There are also types of entrepreneurs that describe many, but not all, self-employed people. Whether we look at types like the lifestyle entrepreneur or high-performing small business owner, or if we look at demographic groups such as women or second career entrepreneurs, the more we know about people pursuing entrepreneurship, the better it is for identifying important issues in their business and personal lives. Every entrepreneur's story is uniquely his or her own, but across millions of entrepreneurs, there are some similarities, and these help make it easier to think about the entrepreneurial process and getting the right kind of help to entrepreneurs.

CHAPTER SUMMARY 2-1 Recognize the key aspects of the entrepreneurial personality. In addition to self-efficacy from Chapter 1, there are five other key behaviors for entrepreneurial success. Passion: The intensely positive feeling entrepreneurs have for their business. Perseverance: The ability to stick to activities over long periods, even in the face of setbacks. Promotion–Prevention Focus: The behaviors related to pursuing gains and preventing losses. Planning Style: Ranging from comprehensive to habit-based, this reflects how much and about what you ordinarily plan. Professionalization: The extent to which an entrepreneur and their firm meets or exceeds the standard business practices for the industry. 2-2 Assess the operational competencies of the successful entrepreneur.

Forms of business-related expertise are called competencies. To be successful, an entrepreneur needs competency in the key business functions (e.g., sales, operations, etc.), industry-specific knowledge, resource competencies, determination competencies, and opportunity competencies. 2-3 Identify the challenges women and minority business owners face. Women-owned and minority-owned businesses are growing at rates faster than other types of businesses. The major challenge facing these businesses is gaining access to opportunity. Access is achieved through networking and set-asides. 2-4 Describe the situation of people who become second career (or veteran) entrepreneurs. Second career entrepreneurship happens when a person is laid off, downsized, given early retirement, leaves the military, or concludes taking care of family members in the home. The challenges facing second career entrepreneurs come from having to do everything themselves and using too much of their personal money too soon in the business. Having to do everything can be handled by identifying the tasks to be done ahead of time. Loss of confidence can be dealt with through taking time to heal and by networking with enthusiastic entrepreneurs. Second career entrepreneurs should use their own money only when it makes sense for the business, usually proven through a business plan. 2-5 Recognize the special nature of entrepreneurial teams. The majority of businesses are started by teams. Spouses or life partners are the most common form of team. Couple teams can benefit from trust and financial flexibility. Typical problems include lack of agreement, separation of work and family issues, and handling of endings. Similar problems also crop up in non-spouse teams. 2-6 Describe the challenges of family business owners. Family businesses are one of the major forms of small business. The major challenges facing the family business are role conflict, time management, and succession. All three challenges can be met through careful planning. Married couples and nonfamily partnerships face many of the same problems and solutions. 2-7 Recognize the stages of development entrepreneurs and their firms go through. Every firm goes through a similar sequence of developmental stages. Emergence comes before the firm starts, followed by existence. Survival happens to most firms, as does resource maturity. Some firms experience the takeoff stage, but most do not. Each stage poses a distinct challenge to the small business and owner. 2-8 Discover the rewards entrepreneurs can achieve through their businesses Nearly all people starting small businesses have flexibility, income, and growth as reasons for starting those businesses Small business owners are less motivated by social reasons (recognition, admiration, power, or family tradition) than the general public. While providing a good income is important to three-quarters of entrepreneurs, only one in four says generating great wealth is important.

KEY TERMS cognition action passion stakeholder perseverance promotion focus prevention focus comprehensive planners critical-point planners opportunistic planners reactive planners habit-based planners professionalization standard business practice expert business professionalization specialized business professionalization minimalized business professionalization entrepreneurial mindset competencies key business functions industry-specific knowledge resource competencies determination competencies opportunity competencies set-asides certification second career entrepreneurs veteran entrepreneurs organizational culture family business role conflict time management succession business life cycle emergence (stage) existence (stage) liability of newness success (stage) slack resources resource maturity (stage) micro-commitment takeoff (stage) growth rewards income rewards flexibility rewards

DISCUSSION QUESTIONS What are the different aspects of the entrepreneurial personality? What would be the likely impact on a start-up if the entrepreneur had a strong promotion focus and a weak prevention focus? Could someone with good industry-specific knowledge but low competency in basic business skills be successful as an entrepreneur in that industry? Why or why not? When does it make sense to create a business using a minimalized approach to professionalization? Why is that so? What are the stages of the small business life cycle? What stage do high-growth ventures go through that other forms of small business do not? What are the strengths and weaknesses of a team? What is the major challenge facing women- and minority-owned firms? How can this be solved? What makes the situation of second career entrepreneurs problematic? What can they do to smooth their way?

EXPERIENTIAL EXERCISES Start by writing down which aspects of the entrepreneurial personality describe you the best. Then take the online Entrepreneurial Potential Self-Assessment at www.bdc.ca/en/articles-tools/entrepreneur-toolkit/business-assessments/pages/self-assessment-test-your-entrepreneurial-potential.aspx. Compare how you imagined yourself to what you observed on the online quiz. Which aspects do you agree with? Which do you disagree with? Are there skills you want to develop or refine based on the results? Page 53 Which entrepreneurial competencies do you possess? Be ready to provide examples and explain why you made these choices. You can use the result of Skill Module 2.2 to aid you in this. Pick small businesses that others in the class are familiar with and analyze what level of professionalization they display. Be ready to explain the basis for your classification. Select a local family business owner or female or minority entrepreneur whom you admire, and research the person's business and professional

background. Interview this person if possible. What particular challenges did he or she face? What competencies did he or she use to overcome them? Go through the list of reasons people give for going into self-employment, and identify which of the reasons seem to fit you. Explain why you identify with each reason. Think about the list of reasons people give for becoming self-employed. If you can, interview local entrepreneurs about their reasons and see how your real-life examples fit with the national survey results.

MINI-CASE GEORGE WASHINGTON, DISTILLER AND SEVENTH-CAREER ENTREPRENEUR105 When he stepped off the podium in front of Federal Hall in New York City on March 4, 1797, George Washington was probably thinking not about the presidency he just handed over to John Adams, but about his audacious plan to start a new career to rescue his Virginia farm, Mount Vernon, from bankruptcy. For Washington, farmer, surveyor, soldier, commander, legislator, and president, this new role might be called his seventh career, but it was necessary. Washington had owned a plantation for much of his adult life, and he tried to get back to it between stints as the nation's top general and as president. By the time he could retire to Mount Vernon, he discovered the business was in trouble. The number of people for whom he was responsible had grown from 10 when he inherited the farm to 300 as he left the presidency. Unfortunately his land-holding size and productivity had not kept pace. He was facing bankruptcy. Knowing this even as he was preparing to end his term, Washington picked up on the idea of a distillery when James Anderson, a Scottish immigrant to Virginia, pitched the idea. Washington had shown himself supportive of inventions, having developed new ways of training mules and preparing wheat for market. He had even received America's third patent. Anderson's idea made financial sense. Taxes on imported rum were high, and this was putting a crimp in the average American's drinking habits. Back in 1797, the average American was annually drinking 5 gallons of distilled spirits like rum and whiskey (today the average is 1.8 gallons). So there was a ready market. So, working with Anderson, Washington started with two small stills in 1797 making a 110-proof rye whiskey. Production grew in 1799 to 11,000 gallons sold in two versions (50 cents per gallon for regular and $1 per gallon for premium whiskey) and a $7,500 profit was made, making Washington America's leading distiller. While Anderson could handle the role of running the distillery itself, the business side was in Washington's hands. Unfortunately, he failed to train a successor. Then Washington died on December 14, 1799. The distillery passed into several hands but began a seemingly unstoppable decline and was closed for good in 1814. For more information, see the Virginia Distillers Association page with video: www.virginiaspirits.org/trail/george-washingtons-distillery-mount-vernon/; and the Business Insider video: www.youtube.com/watch?v=5dIROe_6DuU. CASE DISCUSSION QUESTIONS What

advantages would George Washington bring to James Anderson's idea for a Virginia distillery? Washington's farm was operating even as he got the distillery off the ground. What kind of problems could that raise for the ex-president? At his death, Washington's distillery was the largest in the United States. Did this make Washington a high-growth entrepreneur or a small business owner? Why?